Data Communications Company

Annual Report 2020

Smart DCC Limited
Annual Report including the Regulatory Financial Statements
Year ended 31 March 2020

Registration number 8641679

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DCC Public

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"We believe in making Britain more connected, so we can all live smarter, greener lives"

What?

"We're the digital backbone of the energy system, helping Britain move to a low carbon economy"

How?

"Our secure network, in 30 million homes and small businesses, will open up boundless opportunities for innovation and re-use."

2. Chairman's foreword

Welcome to the Data Communications Company (DCC) Annual Report and Regulatory Financial Statements for the year ended 31 March 2020.

The DCC provides the digital backbone of the energy system and continues to facilitate the roll out of smart meters in homes across Britain – making the nation's energy infrastructure greener, smarter and more resilient.

The last performance year was the most important yet for the DCC and represented a big step forward. I am delighted that more than four million second-generation (SMETS2) smart meters have now been installed on our secure network. Not only are we helping consumers to monitor their energy use more effectively; we are also allowing the energy industry to operate using detailed consumption data on a large scale. This increasingly rich data will make us a more resilient nation and help us to move away from dependence on carbon-intensive power generation, maximising the benefits of renewables and energy storage.

The migration of first-generation smart meters (SMETS1) on to our network has now successfully commenced. This will solve the problem of older meters losing their digital connection and smart capability when consumers switch energy supplier. Our programme team proved not only that this earlier hardware can operate successfully on our network, but also that we can move meters, without disruption to consumers, in very large numbers. Last year more than a 100,000 formerly dormant meters, which were no longer automatically sending readings, were connected to our network. It is a huge challenge to retrofit meters with many hundreds of technology variations onto our network, but the SMETS1 enrolment and adoption programme, which will restore the full benefits of smart metering to consumers, has made a sound start and we have successfully demonstrated that the DCC approach works.

The DCC is also a key delivery partner for Ofgem's Faster Switching Programme, which includes designing, building and operating the next generation consumer switching services. The programme remains a priority for us and we continue to successfully deliver each stage as scheduled and under budget. When this technology is completed in early 2022, it will enable consumers to switch energy providers in one working day, fostering one of the world's most competitive energy markets.

A key marker of our progress this year has been the new DCC high-tech operations centre at Brabazon House in Greater Manchester which the Leader of Manchester City Council, Sir Richard Leese, joined me in formally opening last September. This purpose-built, state-of-the-art centre provides us with an unprecedented, real-time view of the nationwide smart meter roll-out in incredible detail. It will also be a hotbed for innovation with its 19 modular test labs, which will host up to 2,400 smart meters. I am so pleased that we can contribute to the levelling up of Britain by investing in this part of the Northern Powerhouse and I look forward to seeing my talented colleagues working with other organisations from the gathering STEM (Science, Technology, Engineering and Mathematics) cluster in the North West of England.

Under the careful leadership of our CEO, Angus Flett, and his executive team, we have put in place the systems, processes and capability that make the DCC a more mature business. This was highlighted at the outset of the global Covid-19 pandemic earlier in 2020 when we were able to transition rapidly to remote working for almost all our employees, while those who needed to be in the office were safeguarded effectively with social distancing measures. This was done without any loss of performance and I would like to thank everyone who worked so diligently to make this happen.

The maturity of our business means not only that we are fit to support the digitisation of the energy industry, but also that we have put in place the foundations to turn our network into a platform for innovation. We can provide bespoke services to our current customers and, in due course, to new market entrants, capitalising on the potential of our network's unparalleled reach and security. The new revenues generated would allow us to reduce charges for existing customers and, therefore, consumers. Eventually we hope to become cost neutral for the energy industry.

Over the past 18 months, we have significantly improved the approach and mechanisms we use to engage with and consult our customers, the energy companies and Distribution Network Operators. Serving them well, and involving them closely in our future strategic direction, remains a top priority.

All infrastructure projects of a national scale are challenging, and IT infrastructure even more so. The DCC has proven itself to be a creative and problem-solving organisation and an architect of future benefits arising from this precious national asset, which will make Britain more connected, sustainable and resilient. If we are to meet our net zero greenhouse gas targets, the country must have a trusted, centralised, secure electric vehicle charging network. The DCC stands ready to be the digital backbone to the expanded network of electrical vehicle charging points.

As always, I am constantly impressed by the capability within the DCC and our passionate, hard-working team. My sincere thanks to my DCC colleagues, contractors and Service Providers for their very considerable efforts during the last performance year. In particular, I would like to thank both William Rickett and David Brown for their outstanding contribution to the DCC as long-standing members of the Board; and to welcome our new Chair of the Audit and Risk Committee, Barbara Anderson.

Richard McCarthy CBE,
Chairman

DCC Public

2. CEO's foreword

At the DCC we believe in making Britain more connected, so we can all lead smarter, greener lives.

Climate change is the biggest challenge of our generation. To overcome it, we must transform the way we manage our energy supply, power our homes and fuel our transport.

The DCC is core to enabling Britain to meet its net zero greenhouse gas emissions targets, and we fully support Ofgem's Decarbonisation Action Plan.

The last year has seen a step-change in the DCC's capability and a big increase in the reach of the secure smart meter network. There are now well over four million second-generation (SMETS2) energy meters connected in homes. Our work is already making Britain a greener nation, with millions of households now empowered to reduce their carbon impact. In line with the Energy Data Task Force recommendations, the DCC is working with stakeholders and regulators to provide a platform for innovation through access to smart meter data, enabling companies to develop pilot schemes, including with NHSX social care services to support the vulnerable in their homes.

We have proven and are implementing our plan to upgrade the first-generation (SMETS1) meters over the DCC systems, reviving dormant meters and restoring smart functionality to hundreds of thousands of meters. With their meters digitally connected again, consumers are free to switch to competitive tariffs if they wish, without losing smart functionality. We took a cautious approach to this programme, because we were migrating live meters and it was imperative to ensure a smooth experience for consumers; however we are now able to move many tens of thousands in a single day, all without the need for an engineer visit to the home.

From our flagship new Technical Operations Centre and primary Security Operations Centre in Manchester we can monitor services in virtual real-time, accelerating our response to technical issues from both the DCC and the energy supplier perspective. Security is core to our operation, and we work closely with industry, our suppliers and government agencies continually to enhance our defensive security and response capability.

As part of our commitment to ensure that customers - the energy companies and Distribution Network Operators - are at the heart of our decision-making, the DCC has developed a new self-service tool which offers our customers an improved experience as we consult and engage them in our activities. It is a secure online hub, which enables them to manage their interactions with the DCC in one place. Additionally, we host quarterly finance forums and bespoke webinars to allow customers to scrutinise our business cases; we have established a new programme of strategic bilateral engagement; and we are engaging with a broader range of representative bodies from Energy UK to BEAMA.

The DCC continues to focus on all aspects of costs, delivering cashable savings of £166m across the regulatory year, which took us to a total of £273m of savings since the start of the Smart Savings Programme.

Operationally we have beaten our target customer effort score by a significant margin. Being an organisation that is simple and efficient to use is a major priority for the DCC, and we will ensure that we keep improving in this area.

The Covid-19 outbreak this year is a reminder that we need to make public services more resilient and our lifestyles more sustainable. When the smart meter roll out restarts at scale the DCC will look, via its innovation strategy, for opportunities to re-use the network. The DCC's secure platform has huge potential for public benefit, enabling improvements that our society needs – such as an easy to use, secure electric vehicle charging system that will drive up use of clean transport, or remote digital healthcare provision that could alleviate the pressure on our NHS, particularly in the area of social care. Doing more with the platform will allow us to reduce costs for our existing customers, in line with our licence, and to meet our ambition of becoming self-funding by 2030. All of this will contribute to the Government's clean infrastructure strategy and its plan for a fair, green economic recovery after the pandemic.

Not only is the DCC making a big difference to the nation's fight against climate change in its core role, we are also contributing as a business and as people. Our aim is to reduce the organisation's absolute, measurable, carbon load on the environment in order to primarily reach carbon neutrality and then to reduce more afterwards. To achieve this, we've undertaken a variety of measures large and small, much in the same way as most consumers who've taken a smart meter. Our activity has included an overhaul of IT equipment, investment in energy efficient building stock and a move to renewable energy.

We strive to make the DCC one of the best organisations to work for. Our employee net promoter score for the last year was +11, beating the two previous years and putting our company well ahead of global IT or telecoms organisations for colleague satisfaction. In recent weeks the death of George Floyd in the US and the demonstrations across the world have reminded us that so much more needs to be done to achieve true equality in our society. I'm proud that 94% of my DCC colleagues believe the DCC is committed to valuing diversity in the workplace and I promise we will be listening even more in the future to ensure that we are treating everyone fairly and with kindness.

In this last year we have also been laying out plans for bringing in the skills the DCC will need long term. Part of this saw the lunch of our graduate Apprenticeship Programme in Digital and Technology Solutions. There was tremendous appetite, with nearly 300 applicants for the four places. Social mobility was core to our recruitment, and we targeted applicants in the Wythenshawe community local to our Manchester office, as part of our commitment to provide opportunities to those in the area we operate in. I look forward to seeing our first intake of apprentices begin to develop their careers with us.

I am immensely proud of our team at the DCC and of our work together with our customers and service providers. During the current Covid-19 crisis the DCC has managed to maintain in full all our business activity and operational services including our test labs so key programmes have been able to continue.

DCC colleagues and I are excited that we are not just supporting the roll-out of smart meters; we are supporting the digitisation of Britain's energy system and delivering a platform for clean economic growth.

Angus Flett,
Chief Executive Officer

Key performance indicators*

1. SMETS2 meters installed

4,299,449

2. SMETS1 meters migrated

126,941

3. Customer effort score

4.35 out of 7

4. Employee Net promoter score

+11

5. Reported costs

£447.6 million

2019: £399.5 million

6. Charging statement related costs

£487.8 million

2019: £395.4 million

7. Cost savings achieved

£166.4 million

2019: £107.3 million

* Figures as of 31st March 2020

Strategic report

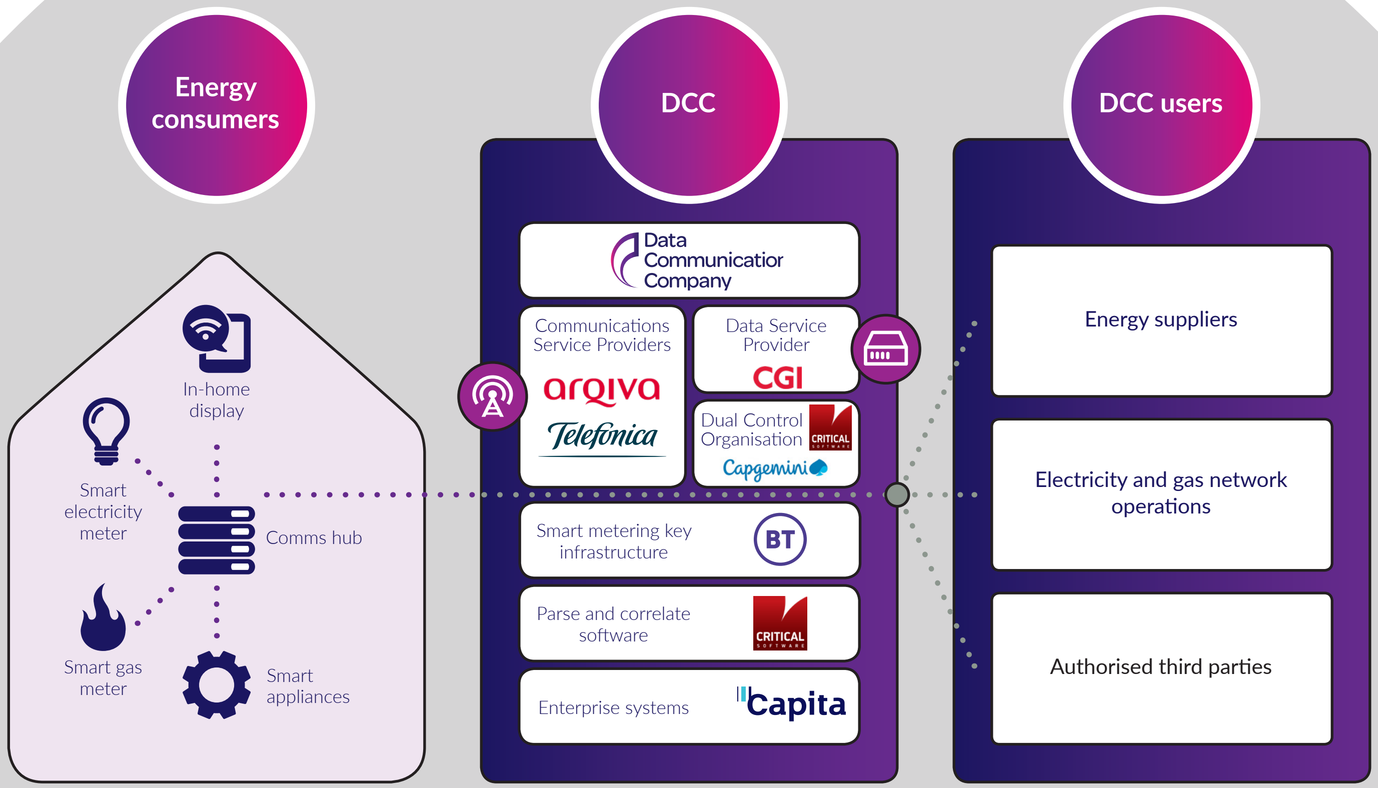
4. Strategic report

What is the DCC?

The Data Communications Company (DCC) is a private sector company, licensed by the Government to build and operate the central, standardised wireless network for smart metering in Great Britain. We support the roll-out of second-generation (SMETS2) smart meters, as well as the migration of around 14 million existing first-generation (SMETS1) meters onto our system. We are also delivering a solution to boost the signal in homes where it is difficult to connect smart meters to the home area network (e.g. blocks of flats), through Dual-Band Communications Hubs, and we are working with the energy regulator, Ofgem, to deliver a faster, simpler central switching service for energy consumers.

The DCC works in a complex environment, paid for by the energy industry, regulated by Ofgem, mandated by the Government and with a responsibility to end consumers. We deliver our obligations through a series of contracts with third party External Service Providers, shown below for the core SMETS2 and SMETS1 service (not including the Smart Metering System Operator).

Energy companies and network operators who are the DCC customers can commission us to add new or customised features in exchange for a period of exclusivity. Over and above this, we are mandated in our licence to seek opportunities for the re-use of our network with the aim of raising additional revenues which will allow us to reduce charges for our core energy customers.



A national, secure, private network

The DCC's service comprises the mobile phone network in the south and central regions of Great Britain and a dedicated radio network in the north. Taken together, this network provides greater reach than mobile phones, digital terrestrial TV and superfast broadband, and will bring the benefits of smart metering to more than 30 million homes and small businesses.

During 2020, the roll-out of second generation (SMETS2) meters increased momentum. Currently there are more than 4.3 million devices installed and connected to our network.

We also started migrating SMETS1 meters on to our network, enabling many more households to continue to benefit from smart functionality when changing suppliers.

The DCC's network operates to national and international security standards endorsed by the National Cyber Security Centre (NCSC). The information that travels across our network is encrypted so that it is readable only by the consumer's own energy supplier, a level of security far higher than standard home broadband.

Enabling a net zero carbon future

Through the digital transformation of the energy network, we are supporting the UK's commitment to become a net zero carbon economy. Our work means that the energy industry has a real-time view of consumption, allowing it to optimise energy generation and storage, and ultimately to smooth the peaks and troughs of consumption and maximise the use of renewables.

More specifically:

- Smart metering is the digital backbone that supports the move to a decentralised energy system
- It allows energy consumers to monitor their energy usage and make smarter choices about what they use and when
- Energy suppliers are enabled to provide a more innovative selection of energy tariffs
- Distribution Network Operators (DNOs) can balance the load of the network, matching supply with demand and ensuring greater use of renewables

A platform for wider value creation

As well as providing services to our existing customers, our network also has the potential to become a platform for innovation in the wider energy sector and beyond. New products would be delivered as value-added services by us and, as a source of additional revenue, would create an opportunity for the DCC first to lower charges for our existing customers and eventually to become cost neutral.

Because our customers have invested in a network that is highly secure, operating to standards endorsed by the National Cyber Security Centre (NCSC), this makes it ideally suited for delivering further developments in the energy sector such as a standardised, centralised electric vehicle (EV) charging network. If the Government were to mandate the re-use of the DCC infrastructure for this purpose, it would represent good value-for-money.

In the wake of the Covid-19 pandemic, the resilience of the UK economy and vital public services is a top priority for the Government. With its eventual reach of more than 30 million homes and businesses in Great Britain and fully encrypted information flow, the DCC network could provide the world's first central, secure and universally accessible remote healthcare platform. This would not only relieve pressure on the NHS but would also allow some at-risk patients, such as those with Alzheimer's disease, to remain at home longer rather than going into care.

Better testing

The DCC has invested in creating the ideal environment where we and our customers can test new products and services. Last year we opened a new, state-of-the-art test facility in Manchester with 19 laboratories. One of these laboratories is specifically designed for our energy customers and their partners to conduct experiments.

We are considering whether to offer the testing of our customers' devices and capabilities as a DCC service. Customers have a need to carry out many different tests on devices, firmware, interface, and business processes. This sometimes requires them to use third party testing organisations. We will consider how we could use our new laboratory facility to offer a central, one-stop shop for multiple testing on their behalf. By reducing duplication of testing, we can help them save time and money. As the DCC's product and service offering expands, our test services can also increase in scope to support new and existing customer requirements. We will engage with our customers to define their requirements and develop the business case over the next 12 months.

Smarter, greener lives

Achieving carbon neutrality at the DCC is just one of the ways in which we're holding ourselves to account as an organisation. In 2019 we formed our Smart Green Team. This is a group of DCC volunteers which is driving our own corporate behaviours so that we can lead 'smarter, greener lives', a commitment which is at the heart of our company purpose.

The team began by commissioning work to baseline the DCC carbon footprint for 2019, which was calculated at 473 tonnes of CO_2. This allowed us to plan the action needed to reduce our footprint and offset our impact.

To reach our goals we have undertaken a number of initiatives, including switching to 100% renewable electricity tariffs at lower cost; the replacing existing lighting in all buildings used by the DCC with LED options; creating active lighting zones to ensure that lights only come on where needed; and offsetting our carbon footprint with tree planting in the UK and reforestation in the Amazon.

Through steps like this, we have managed to achieve carbon neutrality in 2020. We will seek to make further progress on decarbonisation through engagement with our people, our Board and, crucially, our supply chain.

Our business strategy

The last financial year was very important for the DCC and represented a massive step forward in the digitisation of Great Britain's energy system. It highlighted the increasing pace of our work and how well we operate at scale.

In order to build on these gains, the DCC Business and Development Plan sets out our plans for the organisation and outlines what our approach will be to help us achieve four key strategic priorities over the next five years:

These priorities, and the activities we are undertaking to achieve them, have been developed in consultation with our customers via a series of bilateral meetings, workshops and forums.

- Operating a secure platform
- Enabling the intelligent transformation of the energy system
- Enabling innovation and re-use
- Delivering for customers and cost discipline

Our progress

In taking the organisation forward over the last year we set out several key priorities in our Business and Development Plan, namely to:

- Ensure cost effectiveness
- Improve our engagement with stakeholders
- Manage a successful smart meter roll-out
- Enable intelligent transformation of the energy system
- Deliver change and enable innovation in a way that's flexible, straightforward and cost-effective

Our progress meeting these priorities has been tracked against several milestones across the business.

Operating and improving the live service

As part of our task to set up a secure, national smart meter network across the country, the DCC continues to welcome a growing number of second-generation smart meters (SMETS2) onto our network throughout the regions. Nationally, the speed of the roll-out has increased significantly. Our research has found that take-up of SMETS2 meters increased six-fold in 2020. Installations hit the one million mark in May 2019 and passed four million in February 2020.

The greater the number of smart meters connected to the national network, the richer becomes the data available on energy usage. This allows the energy grid to operate more flexibly and make better use of renewables, such as wind power, and storage. This data will also become increasingly important as more electric vehicles connect to the grid. And it will help the DCC to achieve our purpose as an organisation – to make Britain better connected so we can all lead smarter, greener lives.

Second-generation meters are fully interoperable and retain their smart capability when consumers switch energy supplier. The core service providers working with us on the smart meter roll-out are Telefonica and Arqiva (communications) and CGI (data). Once it reaches its full scale, our network will provide greater reach than mobile, digital terrestrial TV and superfast broadband, bringing the benefits of smart metering to 30 million homes and small businesses.

Enrolling and adopting SMETS1 meters

There are around 14 million SMETS1 smart meters installed in properties across Great Britain. They are designed to operate on each energy supplier's individual IT system and often lose their smart functionality when a consumer switches to a new supplier.

The DCC has been directed by the Department for Business, Energy and Industrial Strategy (BEIS) to deliver the programme that will transfer SMETS1 meters onto the national, universal, secure data network. Once this is completed, consumers with SMETS1 meters will be able to change supplier without losing smart functionality. This is the first mass migration of live smart meters and we have focused our approach on making sure that consumers do not experience any negative side-effects during the process.

We carried out extensive tests at the beginning of last year to ensure the first migrations would be stable and secure. We then began migrating dormant meters starting with small groups and scaling up once stability was established. We have organised the migration into three phases known as the Initial Operating Capability (IOC), the Middle Operating Capability (MOC) and the Final Operating Capability (FOC). We are progressing with the IOC and have begun migrating the MOC. Three model types are in active migration and 127,000 meters had been successfully migrated by the end of March 2020.

We have increased capacity so that we can now migrate tens of thousands of meters in a single day. This includes some active SMETS1 meters, but addressing dormant meters remains our priority. We expect to complete the migration programme by the end of 2020.

Availability of Dual-Band Communications Hubs (DBCH)

Our programme to install DBCH will bring an additional 25% of properties in Great Britain within the scope of the smart metering programme, extending the coverage and benefits to 96.5% of all premises.

As a more sophisticated hub with a range of frequencies, they have the capability to overcome some of the physical challenges which are holding back the smart meter roll-out, such as weaker signal strength in buildings with thick walls or in a block of flats where the meter is at the other end of the building and potentially out of range.

After overcoming some technical challenges that delayed the start of the programme, we entered the final stage of testing the new hubs with customers and meter manufacturers in June. When this key phase is complete, we will proceed to manufacture at full volume.

Limited volumes of the hubs are expected to be available from August 2020 for production proving, with mass production planned for December 2020 and the hubs available at scale in January 2021.

Operating and maintaining the platform

We have implemented an Enterprise Stability Plan (ESP) to makes sure that our operating service remains reliable. This means that we are taking a faster, risk-based approach to fixing any defects in the system. As a result, the delivery time for fixes has reduced significantly, from several months to just a few weeks.

As we have grown the live estate, external factors have had a bigger impact on the platform, particularly the number of alerts generated, which has been far greater than the system was initially designed to accommodate.

We are paying particular attention to improving operational stability in our North region, working with our infrastructure partner Arqiva, device vendors and our customers to resolve key performance issues such as excessive traffic on the network caused by spurious alerts. A dedicated forum has been formed with Arqiva and customers which meets fortnightly to discuss how best to tackle ongoing issues. Good progress has been made against the critical success factors.

We have continued to evolve our approach to business continuity and disaster recovery (BC/DR) to make sure that our customers can always rely on the DCC service. We have run a series of "war games" (testing major incident management capabilities) as we have onboarded new suppliers under the SMETS1 migration. This approach ensures that we are effective at managing a wide range of scenarios, from technology challenges to adverse weather events and denial of access.

Industry-leading facilities and capabilities to secure the network

Our new Technical Operations Centre (TOC) at Brabazon House in Greater Manchester has undergone significant development and is transforming the way we support our customers and suppliers with insights and analysis, both in the roll-out of SMETS2 meters and the migration of SMETS1 meters.

In this state-of-the-art facility, video walls give us a new visual representation of the smart meter roll-out 24 hours a day, seven days a week. This helps us to smooth individual installations and detect any incidents and issues as soon as they emerge, even overnight. The TOC's machine learning and analytical tools help us to provide 'clearance' of any changes implemented and prevent residual impacts from running into the next working day.

In addition to monitoring the service, the data science functionality of the TOC is being used by customers, suppliers, BEIS and Ofgem to provide in-depth analytics and insights into the network. Fully operational since September 2019, the capability now available through the TOC means we can monitor services in near real time. Over 150 million messages are transmitted on the network every month and this continues to grow as more meters are installed across the country.

We expect running costs for the TOC to be in the order of £1-1.5 million per annum. To help build on its transformation, we will also be looking to give customers direct access to the centre's tooling, analysis and insights during this financial year, a move which will allow them to use the power of the TOC without having to build a similar facility themselves. We continue to explore these opportunities with our customers on a case-by-case basis.

Our Security Operations Centre (SOC) started operating in October 2019, giving us a better understanding of the end-to-end security of the DCC network. This includes monitoring for issues within supplier-provided services and horizon scanning for any potential threats, including cyber threats, to the DCC or our supply chain. Over the next couple of years, we will be enhancing and maturing this capability to ensure that we build customer trust and suffer less downtime from any security incidents.

Enduring Change of Supply (ECOS)

Smart metering devices use secure, signed certificates to validate that remote parties are authorised to communicate and operate them. One of these certificates relates to the energy supplier and so needs to be refreshed when a consumer switches supplier.

It was the intention that the suppliers themselves would develop a process to meet this requirement. But, given the amount of change already planned as part of Ofgem's Smart Programme, this capability – known as Transitional Change of Supplier (TCOS) - is currently being delivered by the DCC's Data Services Provider. TCOS will eventually be replaced by an Enduring Change of Supplier (ECOS) capability.

To help ensure clarity with the sector, a consultation on options, including the original intention for energy suppliers to provide the ECOS capability, was completed in 2019. Subsequently, in January 2020, we issued a plan – agreed with BEIS – for the DCC to implement the preferred ECOS solution. This will see us procure and select new service providers to create the application, and then host and manage the provision of the service. The programme will also manage the migration of certificates in devices away from TCOS to the new ECOS or Change of Supplier (COS) party provider.

We have now been directed by BEIS to deliver the approved plan as documented, with suitable incentivised milestones. The plan provides for a bundle of three procurements:

- To create an enduring application, allowing the DCC to change COS party provider without needing new code in the future
- To provide hosting for the application, to assist with future proofing and efficiency
- To operate the COS party service

The technical design work to create the new solution and unbundle from the Data Service Provider has been completed. We are now procuring for three distinct phases to support the delivery of ECOS.

Faster, more reliable switching for Britain

Over the last year we have continued to make great progress in facilitating Ofgem's Switching Programme which will give consumers access to faster, more reliable switching of energy suppliers. We have successfully passed our incentivised milestones and made cost savings in the process.

As Ofgem's key delivery partner, we are helping to bring about significant change in the energy market which will make next-day switching a reality. We are creating the backbone of the new Central Switching Service (CSS) that will bring this about and allow consumers to realise the full benefits of an integrated smart metering service.

The CSS – which will replace the existing separate gas and electricity switching services – will be operated by the DCC in its early years, ensuring stability of the network and providing reassurance that it meets the expected delivery requirements.

When fully implemented, the CSS will help to unlock innovation, create a more competitive energy market, provide scope for wider applications and improve outcomes for consumers, both in price and quality of service. In turn, the provision of the CSS supports government ambitions to increase digitisation and decentralisation of the energy market. The total economic benefit to domestic consumers of improved switching is expected to be circa £1 billion by 2035.

After successful completion of the enactment phase (in May 2019), the Switching Programme is now moving through the design, build and test (DBT) phase. We are working closely with four contracted service providers – Landmark, Netcompany, Capgemini and Expleo - to move the programme forward within agreed timeframes and budgets. The main delivery stage will then take us through to the launch of the CSS itself, passing several important milestones along the way.

We have now published the design of the external CSS interfaces, giving industry parties the certainty they need to begin their own design, build and test activities. We have also overseen the development of a 'Core System and Services Integration Approach Plan' to inform other parties about what, when and how activities will take place.

In the summer of 2019, we delivered the design specification for the physical interface of the CSS. This allows parties to develop detailed designs of the interfaces in their own systems. Alongside this, an online developer portal has been launched which provides access to many of the Switching Programme's design documents.

In October 2019, a major milestone called 'Programme Parties Mobilised' was achieved. This recognised the successful initiation of the DBT phase by DCC's contracted service providers and existing service providers.

Working with those same service providers, we have also established standard commercial management processes, formal contract and supplier relationship management and quarterly executive reviews.

The programme remains in a strong position and in April 2020 our Pre-Integration Testing (PIT) was completed as planned. We have now begun System Integration Testing (SIT), which will be one of the busiest periods for the Switching Programme and is expected to last for six months.

The quality of industry data and the security management of the DCC network are also key areas of attention for us as we look to help transform the energy market. We continue to work on delivering harmonisation of address data by ensuring that meter points are accurately matched to premises' addresses. This will save consumers time and inconvenience when switching, as well as reducing costs for suppliers.

To support the Switching Programme and its development, we have continued to engage with the energy sector, hosting three Industry Switching Summits over the last year. These have given us valuable input and insights from key stakeholders about various aspects of the programme. Responding to demand, the DCC also organised a number of shorter, focused briefing sessions on topics of interest to customers.

To help ensure that we are meeting industry needs and that we are providing value to our customers, we have conducted regular satisfaction surveys to gauge where the DCC can improve its approach with stakeholders. Encouragingly, levels of satisfaction have increased significantly in the last year, rising from 32% in February 2019 to around 70% in our most recent survey (March 2020).

As a consequence of the Covid-19 pandemic, Ofgem has asked the DCC to support a managed re-plan of the Switching Programme which would accommodate a deferral of the User Entry Process Testing (UEPT) phase, which was scheduled to begin in early September 2020, by at least six months. UEPT is the first programme phase with a high level of energy supplier involvement and the managed re-plan will allow them to focus on the other priorities they have at this time.

With the re-plan for UEPT, we expect to have a go-live date for the CSS in early 2022.

Electricity settlement reform programme

The Market-Wide Half-Hourly Settlement Programme (MHHS) is an Ofgem-led programme aimed at improving the way in which consumers are billed for their energy use. Currently consumers are billed using estimates of their consumption, based on profiles of average consumers rather than on actual consumption or export in each half-hour period.

MHHS will provide suppliers with the true cost of their customers' usage in half-hourly periods and incentivise them to take steps to help their customers move their consumption to times of the day when electricity is cheaper to generate. This will build on the platform provided by smart metering to enable a smarter, more flexible energy system that lowers bills, reduces carbon emissions and enhances security of supply.

In August 2019, following a request for information, we provided Ofgem with information about the technical, financial and operational impacts of MHHS on the DCC. This information will be used to assist Ofgem in developing a full business case and inform Ofgem's consideration of the impacts of moving towards market-wide half hourly settlement. We outlined the potential impact on capacity for the DCC network under different scenarios and proposed potential solutions.

In conjunction with our service providers, we will continue to assist working towards the introduction of MHHS. The DCC looks forward to further engagement with Ofgem and other industry working groups as the proposal for MHHS develops. This will involve us working through the practical implications for our systems and creating solutions to address any issues that arise.

Change co-ordination

The DCC is responsible for managing a nationwide data network and service which connects smart meters in homes and businesses with energy suppliers, network operators and authorised third parties. Ensuring communication between meters, the integrity of the core network, system availability and smart services is the DCC's obligation. However, the overall smart ecosystem consists of several interconnecting components, some of which are managed by energy suppliers, network operators and authorised third parties.

As the number of meters and customers connected to the system grows and more meter and communication hub combinations are installed onto the DCC network, the complexity of managing the smart network also grows. When changes are made to components of the smart ecosystem, new devices are introduced, or updates are made to existing devices (either by the DCC, its service providers or its customers), there is a risk that it may impair the performance of the DCC Total System.

At present, there is little visibility and co-ordination across the ecosystem of these changes, which means that system availability and services could be at risk if multiple changes take place at the same time. To help address this problem the DCC has been working closely with Smart Energy Code (SEC) Parties to identify an effective way of sharing plans for any user-led changes.

Improving the DCC forward schedule of change is the first stage in building a total ecosystem view of change. We are actively working with several customers to achieve this. Ensuring full visibility and co-ordination will reduce the risk of changes adversely affecting services to energy suppliers, end consumers and our network and services. This will become increasingly important as the system connects to more customers, meters and communications hubs, and the number of changes needed to manage these components also grows.

Production proving

Currently, the DCC tests new code releases and firmware upgrades - including code deployed to resolve production incidents - in a test environment only. As some defects can only be identified or replicated in a real-life production environment, this limits our ability to fully assure change. Consequently, we have relied upon the goodwill of energy suppliers to prove the production version of our processes and code.

Changes to the SEC now permit us to develop a production proving capability of our own. We are working with service providers and BEIS to determine the most economic and efficient way to implement this and we have presented our proposals at industry forums.

A production proving capability will allow us to carry out post-change proving activities and send service requests to DCC production devices in a controlled test laboratory environment. This means we will be able to identify, triage and contain any defects, assuring change in a professional manner and reducing downstream impact on customers. This has the potential to reduce downtime by 10% on a conservative estimate, saving the industry more than £5 million over five years.

We plan to deliver production proving this year in a phased approach to minimise disruption and ensure continued focus on other key programmes such as SMETS1 migration. We will begin with SMETS2 Central & South Region (Phase 1), moving into delivery of SMETS2 North Region capability (Phase 2) and then SMETS 1 capability (Phase 3), later this year.

In-Life Changes

The DCC supports innovation in the energy market by welcoming requests for SEC modifications and Elective Communication Services (ECS). SEC Modifications are industry-wide requests for changes to our services. The ECS process allows existing individual customers to develop new messaging services on our platform on request with a six-month exclusivity period.

In early 2019 we established a dedicated In-Life Change Team within the DCC to focus on the delivery of SEC Modifications and ECS. This led to the successful delivery of the first ever SEC systems release in November 2019. However, we understand that our customers would like to see a reduction in the time taken to assess the impact of SEC Modification proposals and a reduction in the associated delivery costs.

The In-Life Change Team has made several improvements to our processes in order to meet customer expectations and deliver on commitments made to the SEC Panel. Working closely with the industry, the Smart Energy Code Administrator and Secretariat (SECAS), and our service providers we are implementing several key changes, including the end-to-end digitisation of the SEC Modifications process; increased multi-party collaboration during the design phase; key performance indicator (KPI) reporting to track delivery, and streamlined processes to enable accelerated delivery.

While there are some commercial differences between the delivery of ECS and SEC Modifications, much of the process is the same. Where improvements are made to the SEC Modifications process, these will also be applied to ECS, where appropriate.

When the ECS process was first activated as part of the SEC in 2018, there was limited interest in the service in its current form. So, in late 2019 we approached our customers through formal governance groups and bilateral discussions to explore how we could meet their requirements more effectively. Earlier this year we launched a customer survey seeking their input in shaping ECS improvements.

We will use the conclusions of the survey to seek modifications to our licence and the SEC so we can make improvements to the process. These may include increasing the exclusivity period beyond six months; splitting the ECS delivery process into two phases to manage costs; and providing additional reassurance that there will be no adverse impact on core energy communication services.

In Brabazon House we now have a high-tech facility capable of providing customers with an environment to test SMETS devices, with specialist expertise and equipment on site to support the SEC Modifications process and ECS improvements. As a further support to communications testing, all regional Wide Area Networks are available in this one location.

During the business development planning workshops which we held with our customers at the start of 2020, we suggested that one test lab at Brabazon House could become a dedicated facility to support experimentation and testing services for existing customers in the first instance, but also for the further exploration of network re-use. This would potentially allow us to make further reductions in the costs that customers pay to use the network. We are planning to engage with customers formally on this recommendation later this year.

Enhanced customer service operations

While we recognise that we will face significant challenges over the coming years, we are also working hard to ensure that there is enough capacity on our current systems to maintain existing services and optimise our processes to handle changes. To that end, we have already launched several initiatives to support our customers and deliver a quality of service which meets their expectations over the next five years.

Service desk provision is currently being retendered and redesigned as an outcome-based contract which will allow us to provide a more manageable and transparent service for customers. By adopting this approach, we want to ensure we are putting service at the heart of our behaviour and expect that our suppliers will do the same.

As part of the retendering process we are taking input from 16 leading suppliers, both local and global, who have demonstrated world class service delivery in this area. The tendering process is complete, and we anticipate new services commencing in January 2021. We are also looking to develop a set of core service levels that will be applied to any newly contracted suppliers. This will ensure that we stay aligned to business outcomes as they develop and maintain service at the operating heart of our delivery capability.

We believe that by replacing the current technology-based approach, service provision will be contracted at a higher level than is currently found across all outcomes. This will be supported by detailed, behaviour driving KPIs. Depending on the delivery model, we expect a material cost reduction of between 15-25%. Customers will also benefit from a highly trained team and a dedicated resource available round the clock to manage their changing needs.

We will improve effectiveness and efficiency across our operations by simplifying and streamlining complex processes for all our customers. We are looking to measure all our operational processes against industry standards and are aiming to achieve Capability Maturity Model Integration (CMMI) Level 5 by April 2023. By harnessing technology to design processes that are easy to use and repeatable, we can maintain service quality at a consistently high level for our customers and reduce the number of defects. As we mature our processes, we will look to drive continuous improvement - a key requirement of a CMMI Level 5 certification.

The DCC is also looking to implement Information Technology Infrastructure Library (ITIL) Version 4 over the next one to three years. ITIL is the leading service management framework for managing all aspects of IT service delivery. It helps to ensure that IT delivers business value and provides for the needs of customers and users. Implementing ITIL enhances alignment between IT and the business, improving the quality of service delivery and the satisfaction of customers. ITIL Version 4 covers revolutionary technologies such as robotics, AI, nanotechnology and automation.

We will redefine and deliver improvements to our service levels over the next four years by using the continuous service improvement approach which we adopted in 2019. Our key focus will be on improving the customer journey; on operational continuous improvement (CI) activities; and on driving CI with our service providers. All these initiatives will be guided by the impact on our customers.

In the past year, our increased efforts at improving the customer experience have allowed the DCC to shape and track our customer journeys, delivering over 100 improvements as a result. Our Self-Service Interface (SSI) has enabled all users to converse with the DCC through their online requests. We have also developed a way for customers to receive pertinent information on incident tickets they are linked to, so they do not have to search for updates or contact us to check on progress.

Our customer journeys team will continue to equip customers to 'own' their experience. Beyond delivery, we will take more of a partnership role, highlighting and sharing best practice, deepening our trusted conversations, and moving away from being primarily focused on developing the SSI tool.

We have also supported the delivery of 11 new and updated customer journeys related to SMETS1 activity, with more pending as that programme continued.

In terms of ticket management, over the course of the year we have:

- Responded to and closed 231 pieces of customer feedback (93% managed via the Service Centre)
- Responded to customer feedback in an average of 6.3 days (but as quickly as 2.1 days in March)
- Improved resolution times, even though volumes have increased.

In the area of continual service improvement (CSI), we have developed and successfully piloted a service management CSI governance framework that allows us to log all improvements across service management in one place (a "single version of the truth"). This provides visibility and better reporting, allowing prioritisation, risk management, and indication of business benefit. We have also provided a simple process for logging new initiatives.

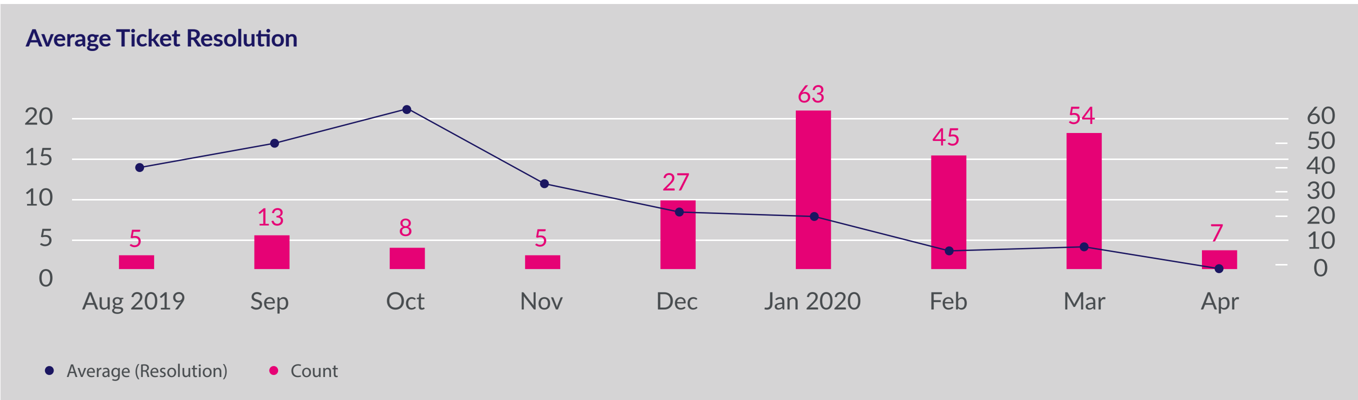
All these improvements are now flowing through to our Customer Effort Score [1] (CES). Using CES as an industry standard metric over the last year, we have gathered data to measure the effectiveness of our customer journeys and customer engagement and used this to help us address areas where we can improve our service levels. Rating using a seven-point scale, ranging from 1 ("extremely difficult") to 7 ("extremely easy"), we achieved an overall average score of 4.3 out of 7 from customers.

This score reflected the fact that we have shifted the customer effort of working with us from "slightly difficult" to one where we are seen as being "slightly easier" to do business with. This is a considerable shift to make in a single year especially at a time when the number of our customer interactions is increasing. We are now nearing "best in class" when compared to similar industries for our incident journey and will look to strengthen our CES further.

Improving our CES across the organisation is vital. We will analyse more wide-ranging data sets and share insights more broadly, using the data to drive further service improvements as the scale of the network increases. We are currently baselining nine customer journeys that will be at the core of our corporate objectives going forward, namely:

1. Incident Management
2. Knowledge Management
3. Early Life Support: SMETS1
4. Service Request Resolution
5. General Query
6. Faulty Smart Metering System
7. DCC Key Infrastructure Admin user credentials
8. Remote Test Lab Test Communications Hub Firmware Upgrade
9. Remedy Access Request.

We will continue to expand this list and segment customer journeys further over the next year.



[1] CES is a single item metric that measures the ease of customer experience

Onboarding

We are digitising our customers' onboarding experience by introducing a service that will allow them to complete application and other forms on-line, to track each stage of the process and to see what the next steps are. As customers complete their onboarding journey, they will be directed to the new order management system which we are developing based on customer feedback. This system enables our customers (new and existing) to manage their logistics-related interactions with the DCC.

During the year 31 DCC customers successfully completed our user entry journey. To help us improve the experience, we have analysed the delivery steps involved and sought feedback from customers on their experience. This has resulted in a significant reduction in the average time to onboard, dropping from one-year to eight months. The feedback from customers has also helped us to create support material which fits with their expectations and means we can provide enhanced resourcing to help with queries at key stages of the onboarding journey.

Across the year, we have focussed much of our work on creating a multi-phased project to deliver an online customer portal which will become the single point of entry for all onboarding activities and further improve the overall customer experience. The first phase of this service will launch in this summer.

Improving customer engagement

Over the last year we made great strides in developing and implementing a new strategic approach to customer engagement in order to improve their overall experience of dealing with the DCC.

Our aim has been to ensure that customers are at the heart of our future. Using their feedback and insights we aim to:

- Deliver greater transparency about our key initiatives, their cost, delivery timeframes and the value we are delivering to customers
- Improve clarity about where and how we plan to engage on key initiatives and how our services reflect the customer input which has helped to shape our plans

A major focus of our efforts has been the development of the new web-based portal which provides customers with a single location for all online interactions with the DCC. Here they can access tailored information and get involved in shaping our work, improving our ability to engage and meet the different requirements of our stakeholders.

Following a successful soft launch to selected customers in March 2020, the online portal has continued to evolve, with further functionality to be added in the coming months that will enhance user experience. This will include access to the customer onboarding process and an order management system, making all our services available through a single point of access. We will continue to roll the portal out to all SEC parties throughout 2021.

Alongside this, we are improving information sharing during the development of the DCC plans. A summary business case for activities costed at more than £1 million will be shared with customers and we will further engage with them where activity is mandated, where there is potential for new activity or where there is a clear set of options for future activity.

To ensure the DCC continues to engage in an appropriate and responsive manner, we adhere to an "Inform, Shape and Survey" strategy. This is particularly important for improving the quality of business cases to enable a fuller understanding of the drivers of change, benefits, underpinning assumptions and risks.

Over the last 12 months we have also improved the way we deliver key events and the interactions we have with our customers. Our Business & Development Plan workshops and the Quarterly Financial Update have given us important opportunities to capture customer insights and knowledge and ensure that these views feed into our wider plans.

Delivering best value for customers

As a part of our ongoing commitment to continuous process improvement, we have established projects designed to improve quality and reduce the cycle times for several key business processes, including our end-to-end change process.

We are using Lean Six Sigma continuous improvement methodology to measure and understand process performance, including data and root cause analysis to identify improvements that will reduce the time taken to deliver change and remove defects.

Our change process is already largely automated, and our improvement project will ensure that it is digitised end-to-end. It will also ensure that improvements to existing workflow are identified and implemented. We are working with one of our key partners, who is also the recipient of the greatest volume of change, to ensure that these improvements benefit the DCC and our supply base.

Cost transformation

The DCC remains committed to delivering ongoing cash savings, with a view to being economic and efficient and providing good value to our customers.

To further support the principle and delivery of value for money, the Smart Savings Programme was launched in 2019 to reduce costs for our customers while increasing the efficiency and effectiveness of our processes. In the last year we have also appointed a dedicated Cost Transformation Manager to help strengthen and oversee the programme.

Since its launch, £273 million of cost savings have been achieved for the benefit of customers in the years to come. £107 million of cost savings were achieved in 2019 and a further £166 million across 2020. Of these savings, £14.4 million materialised in 2020.

Highlights this year include:

- Opening of Brabazon House in 2019 - bringing User Interface Testing (UIT) testing in-house will deliver £96 million of savings over the next eight years (up to 2028) as we reduce reliance on supplier facilities
- SMETS1 commercial negotiations resulted in savings of £37 million
- The completion of the Switching Programme design, build and test contracts resulted in £24 million of savings driven by commercial negotiations
- SMETS2 contract negotiations resulted in savings of £7 million
- £3 million of savings were driven by internal initiatives designed to challenge existing costs and processes
- Refinancing of the next tranche of Communication Hubs, which will deliver significant savings over the duration of our service provider contracts but the total value is dependent on volumes delivered in each year and financing rates achieved.

In line with previous years, cost savings targets have been factored into 2021 and future year charging statements. Building these targets into our baseline figures effectively commits us to achieving a minimum cash saving target.

The target for 2021 has been set at £15 million. In addition to the delivery of cost savings, we will continue to develop and improve our reporting of efficiencies, capturing efficiencies across the business and addressing feedback from the 2019 price control submission.

Key performance indicators (KPIs)

Operational	Achieved	Target
SMETS2 installations	4,299,449	n/a
SMETS1 migrations	126,941	n/a
OPR performance	79%	80%
Customer effort score	4.35/7	3.1/7
Employee Net Promoter Score	+11	+3

Financial	Achieved	Target
Cost savings	£14.4m	£5m
Delivering within budget (i.e. cost spend compared to charging statement)	£487.8m	£495.9m

Our People

Our services depend on having the right people in place who can make a critical contribution in the country's move towards a low carbon future. They are our biggest strength.

The contributions of the DCC staff over the past 12 months have helped us to reach our required milestones successfully in what has been a busy year for the organisation. We want to ensure we are doing everything we can to support our people in realising their full potential.

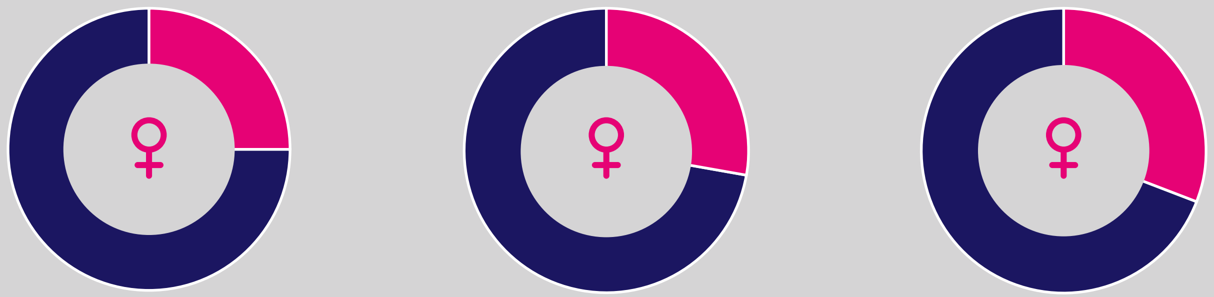
During 2020, we employed some 600 people, working out of three locations: London, Nottingham and Manchester. Recruiting and retaining a diverse workforce remains a priority for us, and we are committed to making our people's wellbeing a central focus of our culture. This will make us a better organisation.

Employee gender diversity

25% of our director level staff are women

28% of our senior managers are women

31% of our managers are women



1 of our 7 Board members is a woman

3 out of 11 Executive Committee members are women

Gender pay		
Hourly pay	2020	2019
Mean (average) pay differential	20%	20%
Median (mid-point) pay differential	19%	26%

Employee engagement and satisfaction

We have continued to focus our efforts in growing and developing our people on three key themes: improving capability, developing our culture as an organisation of choice, and promoting diversity, inclusion and wellbeing for all staff.

This year we once again ran a People Survey to gauge employee engagement and satisfaction, which achieved a response rate of 82%. This showed:

- Our employee Net Promoter Score is +11
- Of colleagues that responded to our 2020 survey:

On taking pride and being brought into our strategy:

- 97% understand the vision and purpose of the DCC
- 90% are proud to work at the DCC
- 88% think the DCC is a good place to work

On diversity, inclusion and belonging:

- 95% feel comfortable being themselves at work
- 94% believe the DCC is committed to valuing diversity in the workplace
- 94% feel comfortable talking about general diversity and inclusion matters with colleagues

These are all improvements on our 2019 scores, however, to further improve we will:

- Better signpost colleagues to existing training opportunities
- Improve our communication about coaching and mentoring opportunities
- Continue to deliver our line manager training programme, to ensure that managers are supported and developed and understand how to support their teams
- Embed our new organisational development team into the business to focus on education and training for the organisation

+11 is our employee Net Promoter Score

97% understand the vision and purpose of the DCC

90% are proud to work at the DCC

88% think the DCC is a good place to work

95% feel comfortable being themselves at work

94% believe the DCC is committed to valuing diveristy in the workplace

94% feel comfortable talking about general diversity and inclusion matters with colleagues

Social responsibility

As an organisation we proactively advocate the concept of social responsiveness through community engagement and good corporate citizenship. Giving back is not only good for us, but it also demonstrates how we're being a responsible business using the power of our people and networks to be a force for good in society. To that end, in the last year we have:

- Allowed staff to take a day's paid leave to create better outcomes for our local communities through employee volunteering. The value of this campaign to volunteer for green causes was £8,250, with our contributions going to Stepney City Farm, Canals and Rivers Trust, and Spitalfields Farm
- Raised £461 for the Young People's Environment Trust

One day's paid leave for volunteering

Over £8k raised for local green causes

£461 raised for the Young People's Environment Trust

Employee networks/groups

There are many ways for staff to get involved in the aims of the organisation beyond their day job. We have various initiatives and committees in place that are being run by our people, for our people. These include:

- **People Forum:** This includes representatives from across each of our business functions and office locations. This group:
  - Is a test bed for new ideas
  - Reviews employee survey data and submits ideas and feedback from each functional area
  - Develops and submits new ideas for making the DCC a great place to work. This was key in developing our organisational cultural profile with our partner agency
- **Wellbeing champions and advocates:** Including a team of mental health first aiders, the champions and advocates plan and promote events locally tied to our wellbeing agenda.
- **Diversity and inclusion network:** This network represent the groups in society that our people come from. It makes sure that we focus on the important and relevant issues affecting all our people and that everyone is included.
- **Social committee:** This committee is responsible for organising group social activities and outings across our business sites.
- **Green Team:** A group of volunteers who develop and lead on ideas to support the DCC's carbon neutrality goals and green agenda.

In 2019 we embarked on developing the DCC purpose, better known as our 'Why'. After a series of workshops, listening sessions and roadshows across all sites, involving all levels of DCC people across the business from our Executive Committee, to our People Forum, we have been able to define our purpose, which is:

"We believe in making Britain more connected, so we can all lead smarter, greener lives."

This purpose now feeds into all our employer branding messages, our corporate communication messages, our internal and external brand collateral and our ways of working. We are now actively pursuing ways to embed this further into our business as we try to live what we say. Our efforts have been validated by our people, with 97% of respondents to our survey stating they understand our vision and purpose.

Annual greenhouse gas emissions

We measure our environmental performance by reporting our carbon footprint annually in terms of tonnes CO2 equivalent (tCO2e) and tonnes of CO2 equivalent per person. The data relates to the DCC's owned and leased facilities under its operational control across the UK [2] and, within this, we report on our direct emissions from the DCC-controlled and owned sources (Scope 1), indirect emissions from consumption of energy (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance to the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of greenhouse gas emissions (the Strategic Report GHG Emission disclosures).

Annual greenhouse gas emissions	2020	2019
Scope 1 (tCO2e)	131.16	71.51
Scope 2 (tCO2e)	259.95	137.03
Scope 3 (tCO2e)	346.41	264.51
Total gross tonnes of CO2e	737.52	473.05
Total gross tonnes of CO2e/headcount	1.39	1.12
Total energy use	1,560,482 kWh	666,253 kWh

Methodology

Our disclosures cover the sources of our greenhouse gas emissions from our operations in the UK. The DCC converts the consumption data into a carbon footprint in line with the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs (Defra).

Measures taken to improve energy efficiency

The DCC's aim is to reduce the organisation's absolute, measurable, carbon load on the environment, in the first instance, in order to achieve carbon neutrality and to lay the foundation of further year-on-year carbon drawdown once neutrality has been realised in each year. Initiatives in 2020 included:

- Replacement of old IT equipment with solid state devices
- Increased use of virtualised computing
- Replacement of existing lighting with LED lighting and automated lighting control zones
- Enhanced use of remote collaboration tools and reduced travel
- Investment in energy efficient building stock
- Move to renewable electrical energy
- Purchase in 2020 of Gold Standard and VCS certified carbon offsets to offset all carbon emissions of the DCC organisation for 2019.

[2] All DCC's operational activity takes place within the UK.

Financial performance

Overview

Value for money

During 2020 we continue to deliver against our strategic aim of providing value for money for customers by focusing on three key areas;

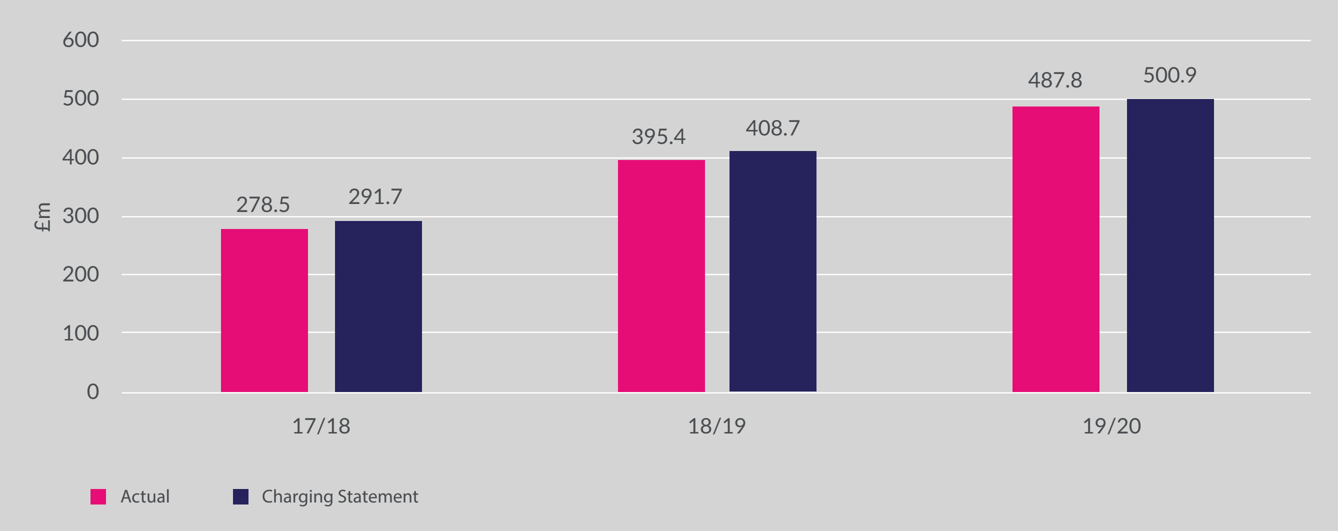
- Continuous improvement of cost forecasting, to ensure charges set at the beginning of the year are at a reasonable level with minimal risk of having to re-open the Charging Statement during the financial period
- Commitment to cost control throughout the year and achieving cost savings through the Smart Savings Programme
- Developing the supply chain management function to strengthen the relationships with our main service providers and drive performance improvement.

Over the past three years we have consistently incurred lower costs than the forecasts used to set charges to customers by using strong controls and successful cost saving actions. We noted the concerns previously raised by customers and Ofgem about over-estimating cost forecasts and as a result, we have improved our internal processes and the accuracy of our forecasting.

This has seen a reduction in the percentage of underspend from 4.5% in the year ended March 2018 to 2.6% in the year ended March 2020.

Since the launch of the Smart Savings Programme two years ago, £273 million of cost savings have been achieved (£107 million in 2019 and £166 million in 2020) spanning the life of contracts with suppliers up until 2029. Areas where savings have been achieved are outlined in the cost transformation section on page 25.

3 year performance actual vs charging statement



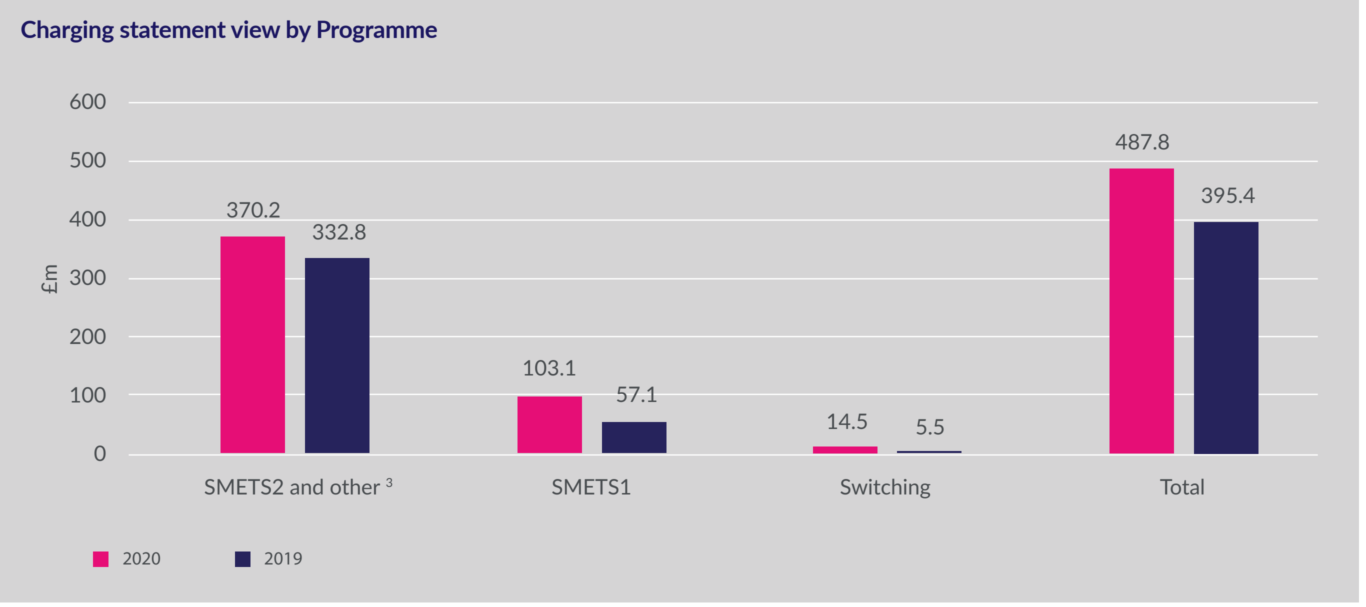
Supplier payments

As a qualifying company we are required to report to the Government on our payment practices and performance. Although not a signatory of the Prompt Payment Code, the Company is committed to making payments to suppliers within a reasonable timeframe, especially in the current Covid-19 crisis where many businesses are struggling with cash flow. In September 2019, we made a commitment to pay 97% of all suppliers within 60 days by March 2020. This has been consistently achieved in all months since December 2019. For 2021, the target has been set to pay 97% of all suppliers within 30 days, in line with Government's aims to move towards 30 days payments as normal practice.

Summary of financial performance

The Company operates on a £nil profit model in which revenue is equivalent to the value of costs incurred and margins earned in delivering and operating the smart metering communication service. Incurred and forecast costs and margins are assessed by Ofgem through the annual price control exercise and any resulting adjustments to costs and margin are made in a future year. Therefore, the directors consider that costs are the primary driver of the Company's financial performance.

	Charging statement related costs- Actual			Reported costs- Actual		
	2020 (£m)	2019 (£m)	YoY change	2020 (£m)	2019 (£m)	YoY change
Key suppliers (including associated finance costs)	337.7	280.0	21%	299.0	283.6	5%
Other suppliers	34.7	33.8	3%	35.9	33.8	6%
Administrative costs	115.4	81.6	41%	112.7	82.1	37%
TOTAL	487.8	395.4	23%	447.6	399.5	12%



Charging statement view of costs

The Company reports results on an adjusted basis to aid understanding of the business. Adjusted results represent costs incurred by the Company presented on the same basis as they are included in the Company's annual Charging Statement and provided to Ofgem as part of the annual price control review. These costs can be directly compared to the estimates included in the Charging Statement and therefore provide a view of how funds have been spent in the year.

Adjusted costs have increased year on year by 23% as a result of the following drivers;

- First full year of service provision by key suppliers for both the SMETS1 and switching programmes, the contracts for which were signed in late 2019 and early 2020. This contributes to 47% of the overall year on year increase and 76% of the year on year increase in costs with key suppliers.
- Additional resource and consultancy spend to support both the SMETS1 and switching programmes.

The above drivers have also contributed to the 10% increase in reported results. This is the first year the annual value of invoices from our key suppliers has surpassed the value of work completed recognised in our reported results, driving a greater year on year increase in adjusted results compared to reported results.

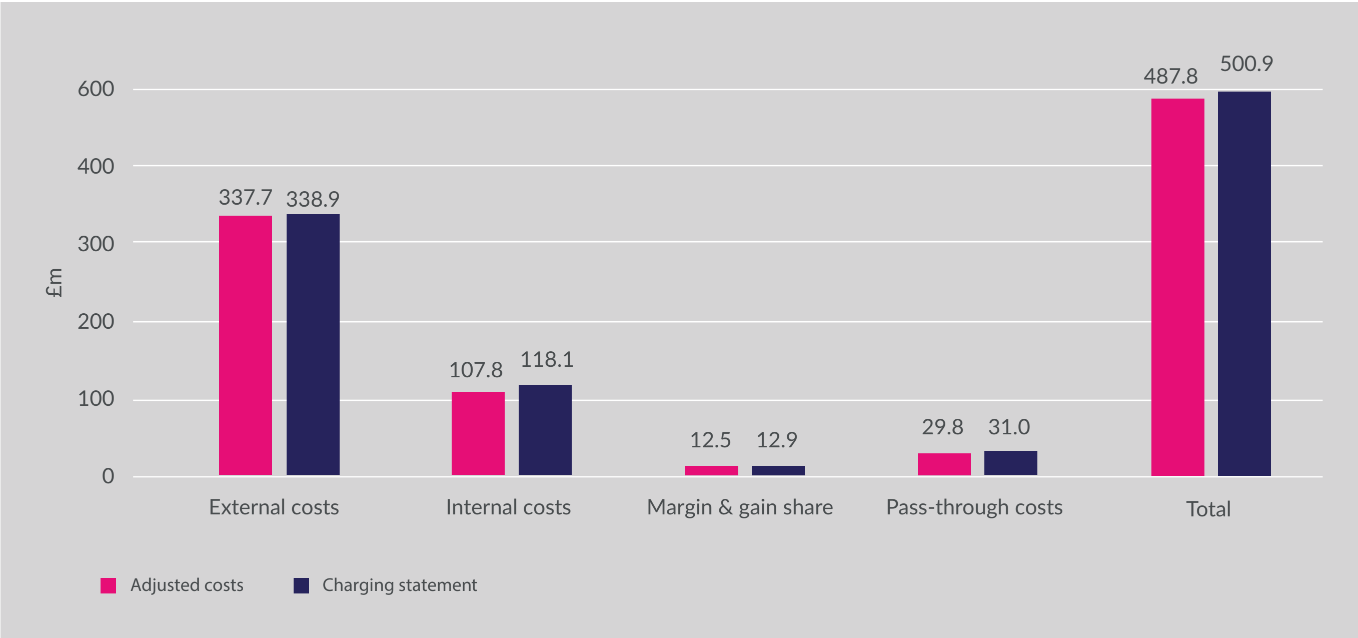
[3] SMETS2 and other includes Release 2.0, November 19 SEC Release, June 2020 SEC Release, and DIT Extension..

Recognition differences between adjusted and reported results

Cost type	Category in the income statement	Category in the charging statement [4]	Difference in recognition
Key suppliers (including associated finance costs)	Cost of sales and finance costs (costs incurred with key suppliers for SMETS2, SMETS1 and switching programmes)	External costs and Communications hub fixed revenue	Adjusted costs are amounts invoiced/due to be invoiced in the year by suppliers in relation to work completed in the year or in previous years, in accordance with the invoicing profile in their contracts. Reported costs represent the value of work completed by suppliers in the year which may have been invoiced/due to be invoiced in the year or will be invoiced in future years.
Other suppliers	Cost of sales (costs incurred with other suppliers providing direct services in relation to the SMETS2 and SMETS1 programmes, e.g. Smart Metering Key Infrastructure and Parse and Correlate services, and costs incurred by SECAS and Alt HAN Co.	Internal costs and pass-through costs	None
Administrative costs	Administrative expenses, depreciation and other finance costs not related to key suppliers	Internal costs, baseline margin, external contract gain share, disallowed costs	Adjusted costs reflect the costs for margin and external contract gain share that can be recovered from customers in the year as determined by Ofgem in the price control decision. Reported results show these costs on an accruals basis and may be chargeable to customers in a future year. Furthermore, adjusted costs include asset related expenditure as incurred. Reported results capitalise these costs in line with IAS 16 and IFRS 16, and depreciation and interest are recognised in the income statement.

[4] As defined in the Licence

Comparison to the Charging Statement for year ending March 2020[5]



When compared to the Charging Statement set for the year ending March 2020 costs incurred were £13.1 million lower than estimated. Although there was overspend compared to budget in the SMETS1 programme, as a result of increased complexity in programme delivery than initially expected, this was successfully offset against cost savings achieved and efficiencies realised during the year.

Price control assessment for year ended March 2019

Each year Ofgem carries out a price control assessment, the purpose of which is to ensure that costs incurred by the Company are economic and efficient. Scrutiny of costs and associated revenues in this way provides assurance to stakeholders that the DCC is achieving value for money.

The assessment is carried out after the regulatory year has ended and the final determination is published in the subsequent February[6], so any financial impact of the decision is first reflected in the results of the following regulatory year. For the year ended March 2019 these were the conclusions published in February 2020:

- All external costs were assessed to be economic and efficient
- £1.1 million of internal costs incurred were assessed to be unacceptable under the Licence. This will be returned to customers through charges in 2021.
- A £1.4 million reduction in baseline margin was determined due to performance under the Operational Performance Regime and Project Performance Adjustment Scheme.
- All margin associated with the switching incentive scheme has been retained.
- A £8.1 million adjustment to baseline margin was awarded for work carried out to date and due to be carried out in 2021 in relation to increased scope in business activities. £4.3 million of this adjustment is included in the reported results for the period ended March 2020.
- A £8.2m adjustment to the external contract gain share to reflect the Company's share of cost savings achieved through refinancing activity. £1.4 million of this adjustment is included in the reported results for the period ended March 2020, the remainder will be recognised on an annual basis in future years in line with Ofgem's determination.

The net financial impact of price control assessment is what the Company and the shareholder consider to be the margin earned from the smart metering contract. This margin impact in relation to 2020 is presented in administrative expenses in the reported results of the Company. £12.8 million (2019: £12.7 million) has been included in administrative expenses this year.

[5] www.smartdcc.co.uk/media/3117/charging-statement-ry1920-issue-10.pdf
[6] www.ofgem.gov.uk/system/files/docs/2020/02/2020.01_price_control_decision_document_ry1819_0.pdf

Liquidity and financial stability

Cash flow is closely monitored by the Board to ensure that the Company has enough funds to continue in operation and that appropriate measures are in place to satisfy the Licence requirements with respect to financial stability.

A key priority is to ensure that charges to customers are set at an appropriate level to ensure adequate cash levels are maintained throughout the year and to minimise the risk of having to re-open a charging statement. The closing trading cash balance was £40.0 million (2019: £39.0 million), which the Board considers an appropriate level of funds to maintain to meet three to four weeks of cost payments.

The Company does not have external financing but does have access to financial support, if required, through arrangements[7] in place with the parent company up to a total value of £15 million.

The Company also has access to credit support provided by customers in accordance with the SEC, which can be drawn-down if a customer fails to pay their invoice. Credit support is provided in the form of a guarantee, letter of credit or a cash deposit, and the value required is calculated as set out in the SEC. As at 31 March 2020 the Company held £15.0 million (£5.6 million) in cash deposits and, together with letters of credit and guarantees, there was sufficient cover for at least 90% of one month's total charges to customers.

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2020, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 March 2022, as well as considering several plausible downside scenarios as a result of the Covid-19 pandemic. The Board's assessment is set out in more detail on page 78 of the financial statements.

Financial KPIs

Spend against charging statement
£487.8m vs **£500.9m**

In year cost savings
£14.4m

Total 'new' cost savings achieved
£166m

% suppliers paid within 60 days as at March 2020
97%

Price control result for year ended March 2019

£6.7m margin adjustment

£8.2m gainshare adjustment

£1.1m costs disallowed

[7] These arrangements meet the requirements set out in Licence Condition 26: Financial stability and financial security and have been approved by Ofgem.

Non-financial reporting

Directors' statement in performance of their duties under section 172(1)

The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in section 172(1)(a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 December 2019.

a) **The long term:** The Board remains cognisant of the evolving technological and innovation growth happening in the current market and work has commenced in 2020 to explore the different options available to support the strategic ambition of developing new services beyond the Company's core service. In October 2019 the Board held its first strategy workshop where long-term growth ambition, risk appetite and potential strategic growth goals were discussed. The Board recognises the importance of stakeholder management as part of decisions made with respect to growth plans for the Company, and the need to involve stakeholders at the right level at the right time. Another 10-year strategy session will take place in 2021.

b) **Employees**: Our employees are key to our success and the Board is committed to having an effective engagement strategy with the workforce. During the year engagement has been primarily through representation of the Chief People Officer for employee related discussions. To date the Board has not implemented one of the methods outlined in the Code; a director appointed from the workforce, a formal workforce advisory panel; or a designated non-executive director, but this is under review for 2021. For the Board's employee engagement please refer to page 53 and for further information on 'Our People' please refer to page 26.

c) **Business relationships with:**

a. Suppliers:

i. Forms of engagement: Executive directors and the senior management team regularly meet with key suppliers to foster relationships. The supply chain team has been strengthened so that the Supplier Relationship Management team is fully in place and engaging directly with suppliers on key issues. There are monthly dashboards in place for the Top 13 suppliers, which are reported to the Executive Committee. The contract management team is fully resourced to manage increased supplier interaction volume. For more information please refer to the financial performance section on page 30.

ii. Consideration by the Board in discussions and decision making – The Board annually reviews the modern slavery statement. The outcome of the annual compliance audit, including compliance in the supply chain, is reported to the Board. The Board considers and approves high value or otherwise significant contracts with suppliers in accordance with the approval framework. The Board discussions benefit from the experience of the non-executive directors and the CEO in the telecommunication industry. They provide valuable insight into how suppliers may be impacted by an external situation or Board decision.

b. Customers:

i. Forms of engagement: Customer engagement has been a key focus in 2020 and progress in this area is explained in detail on page 24.

ii. Consideration by the Board in discussion and decision making – To ensure that customer views are communicated to the Board, every Board paper must have a section addressing customer engagement where relevant. The Chief Regulatory Officer and the executive directors also provide insight of customer views and opinions about key matters raised at Board meetings.

c. BEIS/Ofgem/SEC Panel:

i. Forms of engagement: A dedicated regulatory team oversees engagement with all parties in relation to policy and regulatory matters. There is direct engagement between the Chairman, CEO and BEIS on matters relating to the Smart Metering Programme.

ii. Consideration by the Board in discussion and decision making – Regulatory and governmental issues are communicated through the CEO report and discussed by the Board as appropriate.

d. Shareholder:

i. Forms of engagement: Both the Chairman and Patrick Elliott are senior employees of Capita plc, so there is ongoing engagement via their roles on the Board. In addition, a Capita Shareholder Team was established in the year comprised of senior representatives from both Capita plc and the Company. The group met several times in the year when matters such as operational and financial performance, future regulatory framework and the supply of services from Capita plc were discussed. The Chairman, Patrick Elliot and the executive directors attended these meetings.

ii. Consideration by the Board in discussion and decision making – The Board operates independently of Capita plc and in the best interests of the Company's customers, ensuring compliance with the Licence under which the Company operates.

d) **Impact on the community and environment:** The Board is committed to the Company's 'Smart Green' agenda and has set the target for the Company to reduce its absolute, measurable, carbon load on the environment. Please refer to page 29 for further information on Smart Green initiatives in the year and the Company's carbon usage.

e) **High standards of business conduct** – It is the Board's intention that the Company operates in an ethical and responsible way, and that high standards of business conduct are maintained throughout the business. The Board has promoted this message in several ways:

a. Company values of excellence, partnership and ingenuity are at the core of how we operate, and all employees are expected to exhibit these values in the work they carry out. Each employee is assessed against these values as part of their annual performance review.

b. Reinforcement of the 'Speak Up' policy, which sets out the Company's commitments to speaking up about serious concerns employees may have at work and the channels available to do so responsibly and effectively. Barbara Anderson, as an independent director, has a lead role in assessing and monitoring the use of this policy throughout the year.

c. Ongoing monitoring of compliance against the anti-bribery and corruption policy, ensuring all parts of the business are aware of their responsibilities. All employees must complete financial crime training annually.

d. Commitment to ensure suppliers are paid promptly, with a new target of at least 97% of all suppliers to be paid within 30 days.

Risks

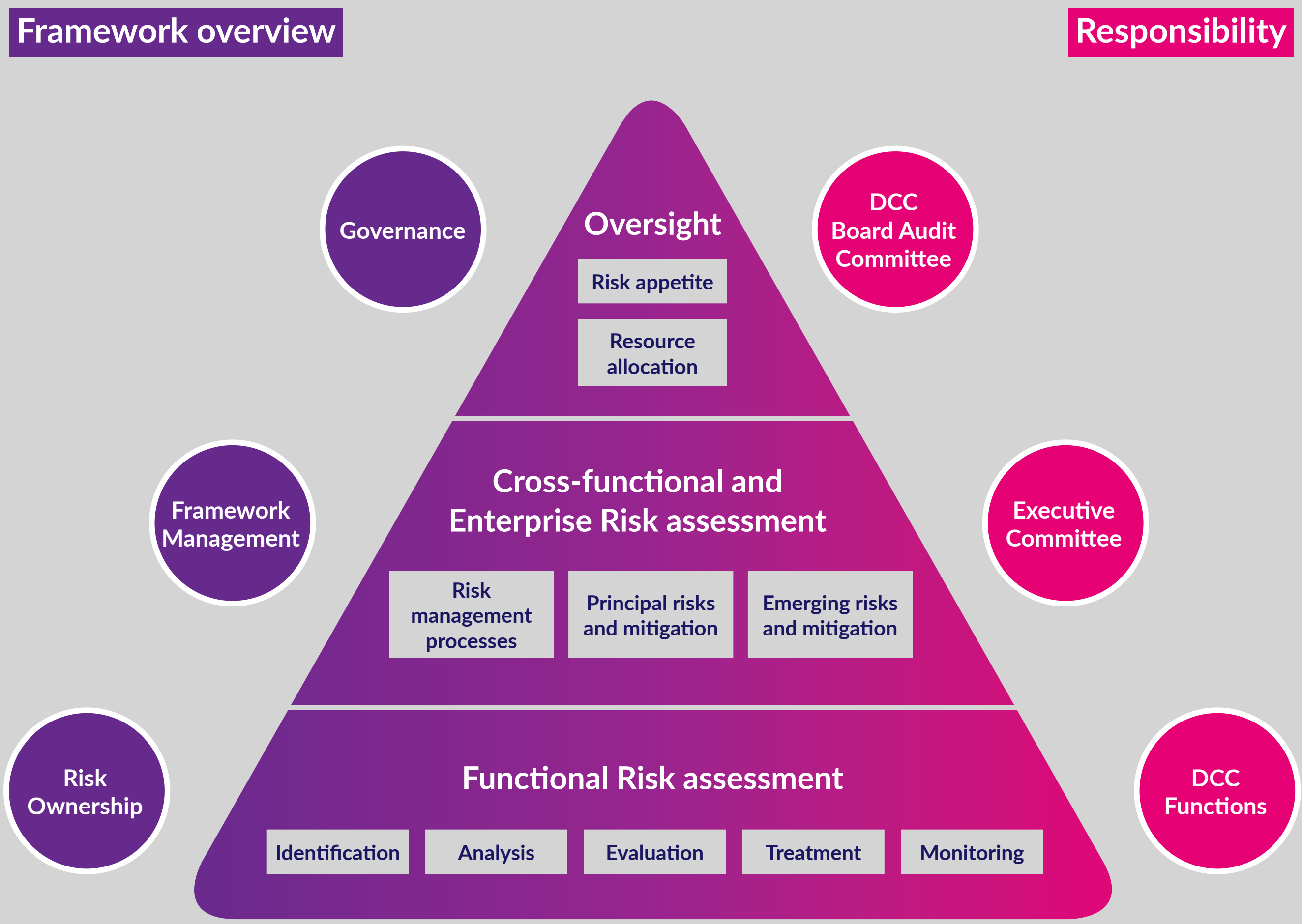
Overview of risk Management and internal controls

Effective risk management and internal controls are key to the successful delivery of the DCC's strategic objectives. Our goal is to minimise the threats and maximise the opportunities for the benefit of our customers, stakeholders and employees within the overall context of the Licence.

Our risk management approach is consistent with the principles of ISO 31000, and is a layered approach including enterprise risk, functional risk and business process risk management. Our internal controls framework is based on a three lines of defence model to ensure that the DCC complies with all UK corporate governance, Licence and internal obligations. Our information security controls are audited and certified to ISO 27001.

Our risk management approach and governance

The DCC operates a risk management approach consistent with the UK Corporate Governance Code 2018 (the Code) and the principles of BS ISO 31000:2018. An overview of the DCC risk management framework is shown below:



DCC risk management framework

The Board is responsible for approving the risk management systems and framework, for setting our risk appetite, and for ensuring that the necessary resources are in place to manage risk effectively. The Audit and Risk Committee is responsible for monitoring the effective operation of the risk management systems and framework.

The Executive Committee is responsible for leading the implementation and operation of the risk management systems and framework within the Company, and for developing the enterprise risk assessment of principal risks affecting the authorised business of the DCC. The Executive Committee are responsible for monitoring the overall risk environment on an ongoing basis, including both principal risks and new and emerging risks, and for ensuring that the enterprise risk assessment reflects the best available information.

Enterprise risks are reviewed regularly by the Audit and Risk Committee. Recommendations on risk tolerance, remediation actions, and resource allocation are made by the Audit and Risk Committee and approved by the Board.

The DCC functions are responsible for day-to-day management of risk. Risk awareness and management are an inherent responsibility of all staff. Each function is responsible for identifying, managing and reporting risk according to a standard assessment framework and for maintaining a risk register detailing identified risks, mitigation actions and owners.

Risk management and reporting is also embedded into key business processes, including:

- Business plan development and reporting
- Programme delivery governance and reporting
- Operational performance governance and reporting
- Financial performance governance and reporting
- Contract development and approvals including contract change
- Service provider performance management and reporting
- Internal audit and compliance reporting

Annual review

In March 2019 the Audit and Risk Committee commissioned an update to both the internal control document and the risk management strategy to reflect the increasing maturity and complexity of the Company, and the associated changes required to ensure that these key, Licence mandated documents remain up-to-date and fit for purpose.

The internal control document defines the organisation structure and controls framework that the Company operates to ensure that business activities are planned, executed, controlled and monitored effectively to achieve the objectives set out in the Licence. The risk management strategy explains the Company's attitude to, capacity for, and tolerance of business risk.

Following internal review by the Audit and Risk Committee and the Board, these updated documents were formally approved by Ofgem in March and April 2020 respectively and are available on our website [8].

In addition, in November 2019 the Audit and Risk Committee commissioned an internal audit report on the completeness and effectiveness of the risk operating model. The report was presented in March 2020 and concluded that the risk operating model is clearly defined and appropriate. Opportunities for improvement were identified in business process design, definition of accountabilities, and organisation-wide behaviours. An action plan was presented to address the areas for improvement. The Audit and Risk Committee approved the conclusions of the report and the proposed action plan and requested regular updates on progress to complete the agreed actions.

[8] www.smartdcc.co.uk/about/governance/

Principal and Emerging Risks

The principal enterprise risks facing the Company have been categorised into three areas:

Category	Principal Enterprise Risks
1. Threat to the Company retaining the Licence due to a revocation event or service failure, or reputational damage putting future Licence renewal at risk	1. Material DCC security incident or data-loss
	2. Persistent non-compliance with the Smart Meter Communication Licence or industry codes
	3. Significant prepayment service failure affecting consumers
	4. Customer perception of poor cost management
	5. Negative media perception of the DCC
	6. The DCC constrains the planned industry smart meter roll-out
	7. Material service degradation due to changes introduced by customers
	8. Failure to deliver SMETS1 programme outcomes
	9. DCC failure to ensure appropriate and effective safety, health and environment controls
2. Threat to the Company delivering expected business performance	10. DCC failure to deliver sustainable return to shareholder
	11. Loss of key staff inhibiting the DCC's ability to deliver the business plan
	12. Loss of stakeholder confidence inhibiting the DCC's ability to deliver re-use and service innovation
3. Threat to the solvency or liquidity of the Company	13. The DCC becoming insolvent or unable to meet its financial covenants

Each enterprise risk, as well as any associated mitigation actions, is summarised below:

Risk	Summary	Mitigation
Material DCC security incident or data-loss	A security breach or data loss incident could have significant consequences for our customers and energy consumers and is a significant threat to the business.	1. The Company is secure by design and assured by the UK Government and security services. The security framework and controls are regularly audited and tested, and security is a primary focus of the Board. 2. In 2020 the Company has established the Security Operations Centre which provides a single security overview and response capability across the DCC ecosystem. 3. Future security capability will be maintained and enhanced through the Network Evolution programme.
Persistent non-compliance with the Licence or industry codes	The DCC operates in a complex regulatory environment with many compliance criteria and ongoing change. A material compliance breach or persistent non-compliance with Licence or code obligations could result in loss of the Licence.	4. The Company operates a compliance management framework that ensures traceability of all obligations to a responsible business owner. Regular testing is conducted to assure compliance; and any identified non-compliances are reported to the Audit and Risk Committee.
Significant prepayment service failure impacting consumers	Energy consumers operating in 'prepayment' mode are dependent on digital vending services and the correct function of the supply connect and disconnect service on the smart meter. A DCC failure to ensure service performance and continuity could result in a critical negative impact to consumers and in loss of the Licence.	5. The Company operates a Technical Operations Centre which monitors prepayment service performance and potential service risks across the ecosystem, and proactively supports incident response. 6. SMETS2 operational prepayment controls have been independently audited and assured during 2019. The enrolment and adoption of legacy SMETS1 meters increases inherent risk due to the complex nature of inherited infrastructure and services and differences in the fundamental service architecture between SMETS1 and SMETS2 meters. 7. Discussions are ongoing with the SEC Panel to agree enhancements to both SMETS1 and SMETS2 prepayment service availability during 2020.
Customer perception of poor cost management	The DCC is a licensed monopoly and all DCC charges are passed through to our customers. A failure to demonstrate effective cost controls and discipline could result in reputation damage to the DCC and loss of credibility affecting future Licence award.	8. The Company operates a regular cycle of finance forums with our customers, providing detail and transparency on our charging statement and costs. 9. DCC customers are engaged in decisions on costs through the SEC Panel and SEC Operations Panel. During 2020 the Company has improved engagement by launching a dedicated digital customer engagement portal.
Negative media perception of the DCC	The Smart Meter Implementation Programme is a high-profile government policy and attracts significant mainstream and social media attention. An ineffective or un-coordinated approach to manage a crisis event or to address inaccurate or negative media reporting could result in reputation damage to the DCC and loss of credibility affecting future Licence award.	10. The Company has established a collaborative approach with BEIS, Ofgem and industry partners to coordinate media response when and as appropriate. 11. Crisis management plans are established, and capability is regularly tested to assure performance.
The DCC constrains the planned industry smart meter roll-out	DCC customers are dependent on the availability and performance of the DCC network and Communications hubs to complete the smart meter roll-out. A material loss of or degradation in the DCC service performance could affect the planned completion of the smart meter roll-out, resulting in reputation damage to the DCC and loss of credibility affecting future Licence award. During 2019, service performance in the North region became a critical concern.	12. The Company operates a standard change delivery model and governance structure to provide control over all programme activity and assure delivery of expected functionality to enable the smart meter roll-out. 13. Operational service performance is monitored by the Technical Operations Centre which identifies potential service risks across the ecosystem and proactively supports risk mitigation and incident response. Operational planning and monitoring processes are in place to ensure that network and supply chain capacity is sufficient to meet the planned demand from our customers. 14. Service provider performance, which underpins all aspects of DCC service delivery and operations, is regularly monitored, with risks and issues reported to the Board. 15. A performance recovery programme has been initiated to address ongoing performance issues in the North region.

Risk	Summary	Mitigation
Material service degradation due to changes introduced by customers	The smart meter ecosystem includes meters and other devices that operate on the DCC network but are not controlled by the DCC. Changes introduced or deployed onto these devices by DCC customers have the potential to cause material service degradation across the network. A failure by the DCC to manage or respond appropriately to these types of changes could result in reputation damage to the DCC and loss of credibility affecting future Licence award.	16. The DCC has enabled collaborative working with device manufacturers to test new devices or planned changes prior to deployment. 17. During 2020, the DCC expects to introduce further prototype testing and change coordination processes to reduce risk.
Failure to deliver SMETS1 programme outcomes	The SMETS1 programme involves the migration of a complex estate of around 14 million legacy smart meters from a variety of different service platforms onto the DCC network. The inherited legacy meters and their relevant service platforms include known and unknown associated risks which could affect the DCC's ability to migrate and operate the meters to meet the overall programme objectives.	18. The Board has established a SMETS1 sub-committee to oversee programme delivery risks. 19. During 2019 the SMETS1 programme was restructured and re-baselined to improve control and reduce delivery risk. In addition, programme delivery assurance has been supplemented by the appointment of a SMETS1 delivery partner. 20. The majority of SMETS1 service contracts are now in place, representing a significant improvement in the programme risk profile. SMETS1 meter migration activity and the treatment of exceptions is being coordinated by a dedicated DCC migration control centre. 21. The DCC continues to engage with customers directly through the SEC Panel and other forums to provide transparency on the progress and status of this complex programme.
The DCC fails to ensure that appropriate and effective safety, health and environment controls are operated	The DCC operates across multiple sites with facilities including radio-frequency testing which are visited by many external parties. In addition, the DCC has a duty to ensure that effective consideration of and controls for safety, health and environment (SHE) risks are in place across the DCC ecosystem and all relevant service providers. A failure to ensure that appropriate SHE controls are in place and operated could result in avoidable injury or damage to people or the environment.	22. As the DCC grows in scale and complexity, SHE has become a greater focus of attention for the Board. 23. A strategic SHE audit was completed during 2019, with several areas identified for improvement. The Company's SHE operating model and control framework will be updated during 2020 to address these areas.
The DCC does not deliver sustainable return to the shareholder	Below target performance against the Operational Performance Regime (OPR), or significant cost disallowance as a result of Ofgem price control determination could result in the DCC failing to deliver sustainable operating margin.	24. The DCC has established robust internal planning, reporting and control processes to assure the financial performance of the business. 25. Business performance is reviewed regularly at the Executive Committee and Board. 26. Covid-19 related economic risks, including the risk of energy supplier insolvency or inability to pay DCC charges have also been considered and mitigation plans have been agreed.

Risk	Summary	Mitigation
Loss of key staff inhibits the DCC ability to deliver the business plan	Loss of key staff from critical programmes or operational activities could significantly disrupt business performance.	27. The DCC regularly surveys employee engagement. Improving engagement scores is a corporate objective. The DCC has developed an employee value proposition and company-wide development programmes to support our 'One-DCC' culture and employee-retention. 28. Staff turnover and attrition are regularly monitored by the Executive Committee, and critical role succession planning is in place. 29. A two-year staff retention scheme was approved by the Board in 2018. A future retention scheme is being considered. 30. The impact of IR35 changes for contractors is being closely monitored to minimise impact on the business. 31. Covid-19 related impacts on DCC staff and their ability to operate have been considered. Travel restrictions, extended work-from-home arrangements, arrangements to assure the DCC critical services, and ongoing staff wellness monitoring are all in place. Return to work planning including arrangements to manage the return of staff to the DCC offices is in progress and consistent with government and Public Health England advice.
Loss of stakeholder confidence inhibits the DCC ability to deliver re-use and service innovation	The Licence requires the DCC to seek and optimise re-use and innovation on the DCC network and services. A loss of confidence by existing stakeholders in the DCC's ability to deliver the core smart meter service could inhibit the pace or direction of future re-use and innovation. In addition, if the DCC is unable to provide a suitably attractive and flexible environment for innovation then existing or new customers may choose not to develop new products on the DCC platform.	32. The Company is taking a measured approach to re-use and innovation, monitored by the Board, to ensure no detriment to core delivery. 33. During 2019 the Company has established a product management team to create the framework for delivery of elective services to existing customers, and a wholesale model to enable re-use and innovation by both existing and new customers. 34. During 2020 we will continue to engage with stakeholders to ensure an appropriate pace and direction of change to support innovation.
The DCC becomes insolvent or unable to meet its financial covenants	Poor cash management or a significant fraud could result in the DCC becoming insolvent or unable to meet its financial covenants.	35. The Company operates robust financial planning and control processes. Financial stability arrangements are in place with the DCC parent company (Capita). 36. Fraud controls are regularly audited to ensure effectiveness and compliance.

Brexit and Covid-19

The Board closely monitors the risks associated with UK's exit from the European Union ('Brexit') and the Covid-19 pandemic.

The primary risk associated with Brexit is disruption to the delivery of Communications hubs to customers as a result of customs or processing delay at the UK border. Mitigation actions including a UK buffer stock have been implemented to minimise the impact of supply chain disruption.

The DCC has implemented a comprehensive response to the Covid-19 pandemic, including:

- safe implementation of government and Public Health England (PHE) advice on travel and social distancing
- implementation and monitoring of business continuity plans to protect critical services, including designation of key workers
- support for staff working at home, including monitoring of wellbeing
- enhanced security threat and IT services performance monitoring

Preparations for a phased return to work are in progress, which will be implemented in alignment with updated government and Public Health England advice.

Emerging risks

The Board regularly reviews new or emerging risks that have the potential to increase the severity of existing enterprise risks or become new enterprise risks. Current emerging risks include:

- Increased staff attrition combined with a tightening recruitment environment, resulting in a loss of critical organisation capability
- Lack of clarity and controls in the relationship between Capita and the DCC, resulting in Capita gaining or being seen to gain unfair advantage in growth and innovation, putting Licence compliance at risk
- Lack of an appropriate risk framework for the DCC innovation and re-use activity, resulting in unacceptable reputational, commercial or operational risk profile
- Lack of effective data framework and controls, resulting in unacceptable privacy, confidentiality or security risk

Mitigation actions and plans for emerging risks are regularly reported to the Audit and Risk Committee.

Internal controls

The Company operates a robust internal controls framework to ensure compliance with all regulatory, Licence, internal and UK corporate governance obligations. The internal controls and compliance framework is described below:

DCC internal controls and compliance framework

The internal controls framework is based on a 'three lines of defence' model. The quality of our internal controls is assured by the monitoring and reporting of operational performance, internal audit and compliance testing activity; and through functional and enterprise risk assessment and risk mitigation plans.

Each function is responsible for the documentation and management of its own operational policies, processes and procedures, and for maintaining transparent and reliable audit trails. Policies are made available to all staff on the Company's secure intranet.

Compliance with all internal policies and procedures is mandatory for all staff. All new joiners are trained on the compliance framework and on relevant operational processes as part of their induction and onboarding process. Ongoing detailed and refresher staff training is completed on a needs and risk-assessed basis.

Traceability and evidence of compliance with all Licence and Code obligations is managed through the Compliance Management System. This is regularly reviewed and updated to include changes to Licence or Code obligations and to reflect any changes in operational ownership or compliance status. Regular sample testing is completed to assure compliance, and any gaps or risks and remediation actions are reported to Audit and Risk Committee and tracked to resolution.

The internal audit function provides regular monitoring, testing, audit and reporting of internal controls-related activity to the Executive Committee, the Audit and Risk Committee and the Board including:

- Monitoring, testing and reporting of compliance with Licence and Code obligations
- Testing, audit and reporting of compliance with internal policies, processes and controls
- Risk-based internal audits to assure effective business performance
- Tracking and reporting of all audit, testing and compliance remediation actions

Operation of the internal controls system, including audit and compliance, is kept under regular review by the Audit and Risk Committee. Overall effectiveness is reviewed annually by the Board.

Viability statement

The ongoing requirement for the Smart Metering Programme and the Business and Development Plan underpins the viability of the Company. Directors have assessed the prospects of the Company over a four-year period, rather than the 12 months required by the standard going concern accounting conventions. The four-year period for review was selected for the following reasons:

i. The Company is required to publish charging statements, indicative charging statements and budgets for a period of four years from the end of the regulatory year

ii. This period is within the dates of the Licence term (currently 2025)

iii. The Company's business plan covers a four-year period

The Business and Development Plan considers the progress of programme delivery and roll-out of the service. The annual Charging Statement and budget process requires the Company to review its ongoing activities and future plans, supported by a monthly review of internal activities and ongoing review of key supplier activities. These are the basis for the charges to be recovered from customers and underpin the base-case cost projections prepared for both the going concern and viability assessments. This year the Board has also considered plausible downside case scenarios for potential impacts of the Covid-19 pandemic (noted on page 78).

In addition to cost identification, the Company can adjust the charges that mitigate the risk of under-recovery of charges for prior years (correction factor) and ensuring that the Company remains cash positive (prudent estimate). The Licence allows the recovery of all costs that are efficiently and economically incurred. Furthermore, the Company has several mechanisms which minimise the risk of shortfall of receipt of payments from customers (explained in detail on page 78).

The Directors confirm that they have conducted a robust assessment of the principal risks facing the Company as set out in the principle risks and uncertainties section on page 39. Based on this assessment, and providing that the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and that the Smart Metering Programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2024.

Richard McCarthy CBE
Chairman
30 June 2020

Governance

5. Governance

Chairman's statement

Governance plays a key role in the culture of any organisation and we welcome the updated and refreshed UK Corporate Governance Code 2018 (the Code) against which we now report. I am pleased to introduce the corporate governance section of this Annual Report and present my introductory statement on Board governance during 2020.

Board leadership

The directors of the Company currently in office are listed on pages 48-49. Barbara Anderson was appointed as an Independent Non-executive Director and Chair of the Audit and Risk Committee in August 2019. We also appointed Patrick Elliott as a Non-executive Director in December 2019. I would like to thank William Rickett, Serge Taborin and David Brown for their commitment and contributions during their time as directors. David Brown will be stepping down on the 30 June 2020 and we are currently recruiting for his replacement.

Meeting schedule

The Board has a standing schedule to meet eight times a year but holds further meetings as required. A meeting to review strategy was held during the year, and further sessions are planned for 2021. Board and committee meetings are structured around the Company's financial calendar. Agenda planning is undertaken in advance of every meeting to ensure an appropriate allocation of time to important topics.

Board effectiveness

We continue to pursue high standards of corporate governance and business practice, including the principles embodied in the Code, which permeate all aspects of the Board's activity and are reflected throughout this Annual Report. Further details on the application of these principles are signposted below:

- Leadership and purpose - our purpose is set out on page 5, Board composition, meeting attendance, compliance with the Code and overall strategy are set out on page 48 onwards.
- Division of responsibilities - governance framework on page 53.
- Composition, succession and evaluation - appointments process and Board evaluation on pages 54.
- Audit, risk and internal control - Audit and Risk Committee report on page 56.
- Remuneration - Remuneration Committee report on page 61.

Board evaluation

During 2020, an external evaluation of the Board and its committees was undertaken. Overall, the review took a positive view of the Board's effectiveness, particularly given the growth of the business and the changing composition of the Board membership. The overall assessment is that the Board operates in a professional manner and provides effective governance of the business. 11 recommendations were made across the following four key areas:

- Board agenda - balancing the tactical with the strategic
- Board capability - looking ahead and creating capacity
- Board independence - clarifying the separation of the Company from its shareholder
- Board operation - efficient and effective use of resource

The Board has a defined plan of actions that will take place during 2021 to address the findings of the evaluation.

Corporate governance and committee reports

The following pages in this section consist of our corporate governance and committee reports. I hope that you will find these and the entire Annual Report informative. The Board will be happy to receive any feedback you may have.

Richard McCarthy CBE
Chairman
30 June 2020

Board leadership

Board members

Richard McCarthy
(Chairman)
Appointed: October 2013

Key skills and experience: Richard joined Capita's Local Government, Health and Property Division as Executive Director for Central Government in February 2012. He subsequently transferred to Capita Group where he is now the Senior Director Government Affairs and the Chairman of Fera Science Ltd and Axelos which are both Joint Ventures between Capita and the UK Government. Prior to joining Capita, Richard was the Director General, Neighbourhoods, at the Department for Communities and Local Government and its lead official for housing, planning, regeneration, local economies, climate change, building standards and the European Regional Development Fund.

Richard was also the Chief Executive of the Peabody Trust from 1999 to 2003 and held senior positions at the Horizon Housing Group and the Hyde Housing Association. Richard was the Chair of the National Housing Federation from 2000-2003 and is a past member of the JRF Housing and Neighbourhoods Committee.

He received a CBE in the 2009 New Year's Honours for his services to housing and planning.

Other current appointments: Director of Company of Dreams Limited, Director of The National Communities Resource Centre Limited, Director of Funding Affordable Homes Housing Associated Limited, Director of FERA Science Limited and Director of Axelos.

Angus Flett
(Chief Executive Officer)
Appointed: February 2017

Key skills and experience: Angus has a strong background in the telecommunications industry, covering roles from product management, to marketing and service operations. Before joining the DCC Angus was Senior Vice President of Vodafone's Global Enterprise Products. Prior to that he spent eight years at BT Wholesale with his most recent position being Managing Director of Customer Service and Customer Relationship Management.

External appointments: None

David Brown
(Chief Financial Officer)
Appointed: September 2016
(resigned 30 June 2020)

Key skills and experience: David is a Fellow of the Institute of Chartered Accountants in England and Wales and has more than 20 years' experience in commercial finance. He has significant board and audit committee experience developed in several public/private partnerships. Before joining the DCC, David was the Chief Financial Officer at Viapath, one of the largest independent providers of pathology services to the NHS. Prior to this he was Finance Director at Eurostar and held senior finance roles at BSkyB and PwC.

External appointments: Non-executive trustee and audit committee chair of the Mental Health Matters charity.

Philip Male
(Senior Independent Director)
Appointed: September 2013

Key skills and experience: Philip has 20 years' experience as an executive director within FTSE companies. He has an extensive background in telecoms, media and internet. He has operated in a range of businesses from small start-ups through to large global companies and high growth environments. He has held several senior posts including Executive Director at Demon Internet, Chief Operating Officer at THUS Group plc and Executive Director at Cable & Wireless Worldwide. Early in his career he was one of two founding directors of Computer Newspaper Services (CNS) which pioneered electronic content in the media industry.

Other current appointments: Non-Executive Director of Ascent Software Limited; Non-Executive Director of Zen Internet Limited; Chairman of Miss Group Limited; Non-Executive Director of Virtual1 Limited; and Chairman of JT Group Limited; Executive Director of Amberstride Limited.

Barbara Anderson
(Sufficiently Independent Non-executive Director and Chair of Audit and Risk Committee)
Appointed: August 2019

Key skills and experience: Barbara has over 18 years' experience as a non-executive director and chair who has worked extensively with SMEs, PLCs in regulated sectors, international private companies and venture capital specialists. An architect by training, her expertise includes innovation for growth and sustainability, strategic planning, start-up acceleration, business transformation and project delivery.

Other current appointments: Non-executive Director and Chair of Audit and Risk Committee of Sovereign Housing Association; Independent Board Member of the London Waste and Recycling Board.

Mark Mathieson
(Sufficiently Independent Non-executive Director)
Appointed: March 2018

Key skills and experience: Mark has 29 years' experience in utility infrastructure at executive and non-executive director levels and has worked with government and regulators to inform and develop national policy. Mark spent 10 years as Managing Director of Networks at SSE, one of the UK's largest utility companies where he was responsible for the electricity Transmission, Distribution, Telecoms and Utility Contracting businesses. Most recently, he was CEO at Green Highland Renewables, the UK's largest developer and owner of run-of-river hydroelectric schemes. He has held various Chairman and Non-executive roles, including Lead Director for Safety.

Mark has a Bachelor of Engineering in Electrical and Electronic Engineering from Heriot Watt University in Scotland; he is a Chartered Engineer and a Fellow of the Institution of Engineering and Technology.

Other current appointments: Non-executive Director of Cadent Gas Limited, Chairman of Nature Investments S.A.R.L and Non-executive Director of Nortegas Energía Grupo S.A.U.

Patrick Elliott
(Non-executive Director)
Appointed: December 2019

Key skills and experience: Patrick is the Chief Strategy & Product Officer at Capita, having been at the company for over six years. He is a customer-focused leader with a strong track record of growing and developing businesses at MD/CEO level, working across the business services and outsourcing, mobile telecoms, media, internet and property sectors. He is successful in both large corporate and smaller entrepreneurial environments, growing profits via new business wins and efficiency improvements across complex portfolios, establishing high-growth start-ups and leading major change programmes and business turnarounds.

Other current appointments: None

Corporate Governance Code

The Company remains committed to maintaining high standards of corporate governance. The UK Corporate Governance Code 2018 (the Code) applies to accounting periods beginning on or after 1 January 2019 and is available from the Financial Reporting Council's website, www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections 1 to 5 of the Code except for those noted below:

Code Principle or Provision	Reason for non-compliance
Provision 9:	
The chair should be independent on appointment when assessed against the circumstances set out in Provision 10.	The Chair was appointed on incorporation of the Company and is a senior employee of the Company's shareholder, Capita plc. Most non-executive directors are independent. The Chair has not served on the Board for more than nine years.
Provision 14:	
The responsibilities of the chair, chief executive, senior independent director, Board and committees should be clear, set out in writing, agreed by the Board and made publicly available. The Annual Report should set out the number of meetings of the Board and its committees, and the individual attendance by directors.	The responsibilities of the Chair, CEO, Senior Independent Director, Board and committees are clearly understood by every director. These have recently been documented and are now available on the Company website, www.smartdcc.co.uk.
Provision 17:	
The Board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the Board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the Board should not chair the committee when it is dealing with the appointment of their successor.	The Company will establish a Nomination Committee during the coming accounting year. Due to our size, Board appointments to date have been conducted via an informal nominations panel, comprising of members of the Board and other members of the Executive Committee, in accordance with Capita policy and Licence conditions.
Provision 18:	
All directors should be subject to annual re-election. The Board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.	Due to the nature of the Company's structure and current operations it would not be appropriate to have annual re-elections of directors at this time.
Provision 24:	
The Board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. The chair of the Board should not be a member. The Board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates.	The Audit and Risk committee is comprised of three independent directors and one non-independent member. The non-independent member provides recent and relevant financial experience to the committee.
Provision 32:	
The Board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the Board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	The Chairman of the Board is also the Chairman of the Remuneration Committee. The Board consider this arrangement to be appropriate for the size and nature of the business.
Provision 37:	
Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.	The Company's remuneration scheme and policy does not include provisions that enable the Company to recover and/or withhold sums from directors. However, the Remuneration Committee has discretion to override formulaic outcomes and set final awards each year.

Board composition

At 31 March 2020, the Board comprised seven directors, made up of the Chairman, CEO, CFO, three independent non-executive directors and one non-executive director, as shows below:

Executive directors	Sufficiently independent [9] non-executive directors	Non-executive directors
Angus Flett (CEO)	Phillip Male (Senior Independent Director)	Richard McCarthy CBE (Chairman)
David Brown (CFO)	Barbara Anderson	Patrick Elliot
	Mark Mathieson	

Board meeting and attendance

Director	Position	Board	Audit Committee	Remuneration Committee	SMETS1 Committee
Richard McCarthy CBE	Chairman	8 (8)	n/a	3 (3)	n/a
Phillip Male	Senior Independent Director	8 (8)	3 (3)	3 (3)	12 (12)
Barbara Anderson [10]	Independent Non-executive Director	5 (5)	2 (2)	2 (2)	n/a
David Brown [11]	CFO	8 (8)	n/a	n/a	10 (12)
Patrick Elliot [12]	Non-executive Director	3 (3)	n/a	n/a	n/a
Angus Flett	CEO	8 (8)	n/a	n/a	10 (12)
Mark Mathieson	Independent Non-executive Director	8 (8)	3 (3)	3 (3)	11 (12)
William Rickett CB [13]	Independent Non-executive Director	2 (2)	0 (1)	1(1)	n/a
Serge Taborin [14]	Non-executive Director	5 (5)	n/a	n/a	n/a

During 2020, the following formal director meetings took place:

- The Chairman held one-to-one review sessions with each executive director and each non-executive director.
- The non-executive directors met without the executive directors.
- The non-executive directors met without the Chairman, led by the Senior Independent Director.

Board leadership

There is a clear division of responsibility between the running of the Board by Richard McCarthy as Chairman and the running of the business by Angus Flett as CEO.

During the year Richard McCarthy and Phillip Male as Senior Independent Director held meetings comprising solely the Non-Executive Directors. Phillip Male also met with the Non-Executive Directors without Richard McCarthy.

Governance and strategy

The Board's role is to ensure the long-term sustainable success of the Company. Maintaining the highest standard of governance is integral to the effective delivery of our strategy and ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our stakeholders and employees while also considering the obligations placed on the Company by the Licence.

The Board determines the strategic objectives and policies of the Company to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company. The executive directors are directly responsible for running the business operations; and the non-executive directors are responsible for bringing independent judgement and scrutiny to bear on decisions taken by the Board. The non-executive directors must satisfy themselves about the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by executive and senior management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management team are fully empowered to implement those decisions.

The following matters (amongst others) are factored into all Board discussions and decisions, and are detailed in the section 172 statement on page 36:

- The likely consequences of any decision in the long term
- The interest of the Company's employees
- The need to foster business relationships with suppliers, customers and others
- The impact of the Company's operations on the community and the environment
- The desirability of the Company maintaining a reputation for high standards of business conduct
- The need to act fairly towards all stakeholders of the Company

Culture

The Board assesses and monitors culture through ongoing policy review to ensure policies are aligned with the Company's purpose, values and strategy, are well understood by the workforce and are driving the right behaviours. Review of the annual People Survey results (page 27) also provides valuable insights into how well the culture is embedded across the organisation and, most importantly, key areas of focus for developments. The results of the recent survey were very positive, and the Board were pleased to see that 90% of respondents are proud to work at the DCC and 95% feel comfortable being themselves at work. However, there is more work to be done in areas such as wellbeing, flexible working and learning and development and the Board will be reviewing progress in these areas throughout the forthcoming year.

Board independence

Non-executive directors are required to be independent in character and judgement, so that they can exercise independent oversight and effectively challenge management. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy. With the exception of Richard McCarthy and Patrick Elliot, who are members of senior management at the shareholder, all other non-executive directors have been determined to be independent.

Management of conflicts of interest

None of our directors or their connected persons, has any family relationship with any other director or officer, nor has a material interest in any contract to which the Company was a party during the year or up to signing of the accounts.

Each director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. If any director becomes aware of any situation which might give rise to a conflict of interest, they must, and do, inform the rest of the Board immediately and the Board is then permitted either to authorise such conflict or request that the director recuse themselves from certain discussions. This information is then recorded in the Company's Register of Conflicts. In addition, each director certifies on an annual basis that the information contained in the Register of Conflicts is correct.

Matters reserved for the Board

Matters reserved for the Board include, but are not limited to:

- Strategy and management, including responsibility for the overall leadership of the Company, setting the Company's values and standards and overview of the Company's operational management.
- Financial reporting, including the approval of the Annual Report and certificates for submission to Ofgem.
- Internal controls, ensuring that the Company manages risk effectively and is compliant with the Licence
- Contracts, including approval of significant supplier contracts and strategic projects
- Ensuring satisfactory communication with stakeholders
- Board membership and other appointments, including changes to the structure, size and composition of the Board, and succession planning for the Board

[9] As defined in Licence Condition 9
[10] Barbara Anderson was appointed to the Board on 1 August 2019
[11] David Brown resigned from the Board on 30 June 2020
[12] Patrick Elliot was appointed to the Board on 1 December 2019
[13] William Rickett CB resigned from the Board on 1 August 2019
[14] Serge Taborin resigned from the Board on 1 December 2019

Shareholder engagement

Both Richard McCarthy and Patrick Elliot are senior executives of the shareholder and therefore ongoing engagement is maintained through their presence on the Board. They regularly provide updates and manage communication to the shareholder at a senior level. They, alongside the CEO and CFO, will report to the Board on any significant discussions with the shareholder.

During the year a new forum, the Capita Shareholder Team, was established as a means of providing quarterly updates to the shareholder on areas including, but not limited to, operational and financial performance, progress against strategic objectives, contractual arrangements between the Company and the shareholder, and the future regulatory framework of the Company.

Representatives from the shareholder include Richard McCarthy, Patrick Elliot, the divisional Legal Director and the divisional Finance Director. The Company is represented by the CEO, the CFO, and the Chief Regulatory Officer. Other members of senior management attend the meetings as required.

Employee engagement

Employee related matters and concerns are discussed with the Board by the executive directors and the Chief People Officer, who attends meetings when relevant items are on the agenda. This will include remuneration policy, incentive schemes, health and safety, matters raised through the People Forum, and the results of the annual People Survey. The People Forum and the People Survey are explained on pages 27. Employees can raise concerns, anonymously if they wish to do so, using the Company's 'Speak Up' policy. There are several channels through which employees can share their concerns, including an independent Speak Up facility that is available 24/7.

Future methods of engagement with employees are currently under review by the Board and will be implemented in 2021.

Directors' indemnities

The Company has indemnified each director in respect of certain liabilities and costs they might incur in the execution of their duties as a director. Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and continue to remain in force.

Division of responsibilities

The Board

Role of the Board – To ensure the long-term sustainable success of the Company and create long-term value for the mutual benefit of all stakeholders and employees.

Matters reserved for the Board

Strategy and management, financial reporting, internal controls, major contracts, shareholder communication

Audit and Risk Committee

External audit, financial reporting, risk management and internal controls, internal audit

Remuneration Committee

Remuneration policy, remuneration principles, incentive design and setting of targets, executive and senior management remuneration

SMETS 1 Committee

Oversight of the SMETS1 Programme, approval of major contracts

Role of the directors

Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. This includes setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman is also responsible for ensuring there is sufficient evaluation of Board performance and that appropriate actions are taken to ensure compliance with best practice.

Senior independent director

The senior independent director acts as a sounding board for the Chairman on Board-related matters, chairs meetings in the absence of the Chairman, acts as an intermediary for other directors when necessary, leads the evaluation of the Chairman's performance, leads the search for a new Chair, when necessary, and is available to the shareholder to discuss matters which cannot be resolved otherwise.

Non-executive directors

The non-executive directors should constructively challenge and help develop proposals on strategy. They should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration for executive directors.

Executive directors

The executive directors are responsible for the day-to-day running of all aspects of the business. This responsibility is different from the Chairman's role in running the Board. The role of CEO is separate from that of Chairman to ensure that no one individual has unfettered powers of decision making.

Composition, succession and evaluation

Diversity and inclusion

We are committed to creating an environment where all colleagues feel a sense of belonging, which will allow:

- an environment where individuals can express their authentic self
- honest dialogue and interactions across all levels of the workforce
- genuine understanding, recognition and celebration of each other's differences
- organisational cohesion

In turn, we believe this will create a culture where:

- everyone has something to add
- everyone adds value
- everyone can be themselves

We are achieving this across the business in a number of ways, led by our Diversity and Inclusion people network and sponsored by members of the Executive Committee. We are continuously reviewing processes and our approach to recruitment and attraction of staff, providing relevant training and development opportunities, and monitoring and managing our workforce demographics, ensuring that marginalised groups feel empowered and that they belong.

The Board has committed to:

- Monitor progress against the plan for diversity and inclusion and ensuring the appropriate sponsorship from senior management is in place
- Sponsor initiatives which support improved diversity at senior levels of the organisation
- Ensure new appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and leadership for the Company.

Appointments

In the absence of a nomination committee, the appointment process ensures that the Chairman, executive directors and non-executive directors have the appropriate availability to undertake their respective roles satisfactorily. The appointment process also ensures that the executive directors have not taken on more than one non-executive directorship or chairmanship of a FTSE 100 company.

The need for an additional or replacement Board member is approved by the Board, and the Chairman is formally instructed to initiate a recruitment process. The Chairman engages a recruitment consultant to identify a suitable candidate. The selection process must consider the skills, knowledge and experience of the ideal candidate and the requirements of the Licence. The Chairman will review all applicants and shortlist those to be interviewed. Interviews are conducted by both the Chairman and at least one sufficiently independent director . On completion of this process the Chairman will provide an overview to the Board on the short-listed candidates and recommend a candidate following Board review. Once a draft contract or letter of appointment has been drawn up the Board formally approves the new appointment.

During the year Barbara Anderson was appointed to the Board following the use of an external search consultancy, Drax Limited. This consultancy is used by the Company for recruitment of senior positions.

The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office. Since the terms and conditions of appointment of the non-independent non-executive directors are set out in their employment contract with the shareholder, these are not available for inspection at the Company's registered office.

Induction, training and development

Board members receive an induction on joining the Board and can discuss with the Chairman any training and development needs. The Chairman will also regularly review directors' development and training needs through the annual Board evaluation. Non-Executive Directors are encouraged to meet regularly with senior management to share knowledge, advice and broaden their understanding of the business.

All the Company's directors can obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. This ensures that the Board has sufficient resources available to undertake its duties satisfactorily.

Board effectiveness review

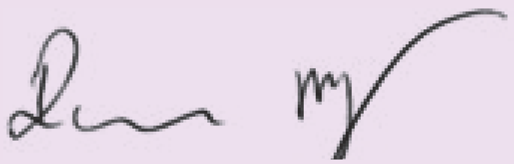
The 2020 review was externally conducted by Socia Limited, a company that does not have direct links with any directors and has not conducted any other work for the Company. The review comprised of three stages:

- **Setting up the evaluation** – this involved agreeing objectives of the process with the Chairman and identifying individuals to be interviewed
- **Gathering views** – each Board member was interviewed, and additional feedback was obtained from the executive directors, government representatives at BEIS and the Company Secretary.
- **Reporting results** – findings were discussed with the Chairman and presented to the Board.

Overall, the review took a positive view of the Board's effectiveness, particularly given the growth of the business and the changing composition of the Board membership. The overall assessment is that the Board operates in a professional manner and provides effective governance of the business. 11 recommendations were made across the following four key areas:

- **Board agenda - balancing the tactical with the strategic –** Dedicate time in the meeting agenda to focus on the future and growth aspirations alongside the conventional demands of running a significant technical and operational business
- **Board capability - looking ahead and creating capacity** - Board membership requires careful management and given the increasing complexity of the business, the Board may benefit from the introduction of a Nominations Committee. This would ensure that a clear succession plan for all Board members is in place, and that the future skills and experience mix of the Board is planned and managed
- **Board independence - clarifying the separation of the Company from its shareholder** - The Board should be clear on how its relationship with the shareholder can ensure that it can operate as a responsible shareholder and as a supplier to the Company without exercising undue influence
- **Board operation - efficient and effective use of resource** -The Board may now wish to consider more efficient approaches to scrutinising the performance of the business and maintaining sufficient controls of spending. This may require both procedural change that can hold executives to account and also continue building on the trust between the executive and non-executive groups

The Board reviewed the recommendations and approved the proposed action plan in March 2020. All actions are expected to be concluded by the end of 2021.



Richard McCarthy CBE
Chairman
30 June 2020

Audit and Risk Committee report

Members:	
• Barbara Anderson	• Mark Mathieson
• Phil Male	• Simon Mayall

Chair introduction

In line with the rapidly developing business and operations of the DCC, the Audit and Risk Committee has developed significantly over the last twelve months.

Specifically, on top of its existing roles in overseeing key financial processes, the Committee has also taken on the responsibility for reviewing and assessing systems of internal control and risk management, as well as monitoring key risks within the business and reporting on these to the Board as appropriate. The Committee's terms of reference have been updated accordingly.

Consistent with the core activities and responsibilities of the business, a forward-planner has been instituted to ensure that the Committee routinely delivers against its objectives in a timely manner.

The Committee has overseen refinements to the Risk Framework and Risk Register to support the management of risk against risk appetite, and the development of a review schedule for key policies.

These changes will now be allowed to bed in over the next few months and will be subject to review on an ongoing basis.

Committee membership and attendance

All members of the Committee except Simon Mayall are independent. Simon Mayall is considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code 2018. Meeting attendance is set out on page 51. Simon Mayall has attended all three Committee meetings during the year.

To encourage effective communication, the Board Chairman, CEO, CFO and Chief Risk and Business Improvement Officer are always invited to attend Committee meetings in addition to its regular members, along with certain members of the senior management team and representatives from KPMG, the Company's external auditor. Opportunity exists at the end of each meeting for the representatives of the internal and external audit teams to meet with the Committee members without management present, and both audit teams have access to the Committee should they wish to voice any concerns outside formal meetings.

Committee performance was assessed as part of the externally facilitated Board evaluation (see page 55 for more information). The Board is satisfied that the combined knowledge and experience of the Committee's members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has competence relevant to the sector in which the Company operates.

The Group Company Secretary acts as secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

How the Committee operates

The Committee has established an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the Committee and standing items that the Committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each Committee meeting, led by me and attended by senior management. Their purpose is to identify key issues impacting the business that may require consideration by the Committee.

At each Committee meeting, the members receive reports and presentations covering key financial reporting, risk, compliance and audit matters which are delivered by senior personnel who attend by invitation to provide clarification or handle any queries from Committee members. I report to the Board the significant matters discussed and make any recommendations as necessary.

Role and responsibilities

The Committee is responsible for providing formal and transparent arrangements for the application of financial reporting, risk management and internal control principles and maintaining an appropriate relationship with the Company's auditors. The Committee assists the Board in fulfilling its oversight responsibilities in respect of the Company. The Committee's key responsibilities are:

Financial reporting	To review the reporting of financial and other information to stakeholders of the Company and monitor the integrity of the financial statements, including the application of key judgements in determining reported outcomes to ensure that they are fair, balanced and understandable.
Internal controls and risk management systems	To review and assess the adequacy of the systems of internal control and risk management and monitor the risk profile of the business.
Compliance, whistleblowing and fraud	Responsibility for the whistleblowing policy resides with the Board, and both the Board and the Committee receive annual and ad hoc reports on the whistleblowing process, and on any significant issues raised. The Committee will also review the adequacy and security of the Company's policies and procedures for whistleblowing and detecting fraud.
Internal audit	To approve the annual internal audit plan, review the effectiveness of the internal audit function and review all significant recommendations and ensure they are addressed in a timely manner.
External audit	To review the effectiveness and objectivity of the external audit process, assess the independence of the external auditor and ensure appropriate policies and procedures are in place to protect such independence.
Effectiveness	To report to the Board on how it has discharged its responsibilities.

How the Committee discharged its roles and responsibilities in 2020

The Committee met three times during the year and attendance at each meeting is shown on page 51. Meetings are planned around the Company's financial calendar.

Financial reporting

As part of the process of monitoring the integrity of the financial information presented in the Annual Report and Accounts, the Committee reviewed the key accounting policies and judgements adopted by management to ensure that they were appropriate. The significant areas of judgement identified by the Committee, in conjunction with management and the external auditor, are set out below:

Costs incurred and revenue recognition		
Matter considered	**Action**	**Outcome**
The amount of costs recognised in the period and whether they are permitted to be recharged to service users directly determines the amount of revenue recognised in the income statement. Therefore, there is a risk that if costs are not accurately recorded, revenue would be misstated.	Members of the Committee receive regular updates from the Chief Financial Officer on costs incurred throughout the year as part of management information presented to the Board. The Committee reviews a reconciliation of costs in the financial statements to this management information.	The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue and cost recognition.
Going concern		
Matter considered	**Action**	**Outcome**
Consideration of the going concern assumption is the responsibility of the Board, and the Committee conducted an assessment as part of its support role.	The going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee considered the business plan projections that cover the 4 years to 31 March 2024, in addition to the cashflow projections until March 2022. The Committee considered the going concern assumption disclosures. The Committee considered the requirements of the Code as it applies to the Company's viability statement including the four-year period of assessment which aligns with the Company's planning horizon and the processes supporting the viability statement. After discussion the Committee determined that the four-year measurement period continued to be appropriate and that the viability statement (as set out on page 45) should be recommended to the Board for approval.	The Committee is satisfied that page 78 includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board, including the assessment of plausible downside case scenarios with respect to the Covid-19 pandemic in the UK.

Fair, balanced and understandable

At the Board's request, the Committee considered whether the Annual Report was fair, balanced and understandable and whether the information provided was sufficient for a reader of the statements to understand the Company's position and performance, business model and strategy. The Audit and Risk Committee reviewed both the narrative and financial sections of the reports to ensure they were consistent and gave a balanced view of the performance of the business in the year and that appropriate weight was given to both positive and negative aspects. The Committee also assessed whether important communications issued during the year were presented clearly and whether the Annual Report enabled readers to understand the Company's financial position and prospects, its going concern status and longer-term viability. The Committee concluded that the report provided a fair, balanced and understandable view of the year under review and recommended it for approval to the Board.

Other issues considered in relation to the financial statements

Materiality

Materiality is important in determining the risk attached to any judgement. The Committee considers the audit materiality set by the external auditor (KPMG) to ensure that the Committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. It reviews the external auditor's report and the individual items that breach the materiality thresholds and assess their relative impact on the reported statements, which comprise the statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flow, and the notes to the accounts.

The Committee requests further clarification from both the external auditor and the Chief Financial Officer as to the nature of these items and their relative importance in the financial statements.

After having made such enquiries, the Committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where their exclusion would not cause detriment to the overall reading of the financial statements.

Disclosure of information to the auditor

The directors who held office at the date of the approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and that they have taken all steps that they ought to as a director to make themselves aware of any relevant audit information required for the audit and to establish that the Company's auditor is aware of that information.

Statutory auditor

The Committee provides a forum for reporting by the Company's auditor and it advises the Board on the appointment, independence and objectivity of the auditor and on fees earned for both statutory audit and non-audit work. The Committee discusses the nature, scope and timing of the statutory audit with the auditor and, in making a recommendation to the Board on auditor reappointment, performs an annual assessment of the auditor's suitability and performance.

The auditor attends meetings of the Committee and provides updates on statutory reporting, non-audit fees and ongoing audit items.

The auditor has opportunity to raise concerns with the Chair separately and in private session with the Committee.

Auditor independence

The Committee is committed to ensuring appropriate independence in its relationship with the auditor and the key safeguards are:

- The Chief Financial Officer monitors the independence of the auditor as part of the assessment of the auditor's effectiveness and reports to the Committee;
- The Chief Financial Officer monitors the level and nature of non-audit fees. Specific assignments are discussed in advance with the auditor and flagged for the approval of the Committee as appropriate. The Committee reviews non-audit fees of this nature and considers implications for the objectivity and independence of the relationship with the auditor.

Non-audit services and fees

Permitted non-audit services are those closely related to the audit, including those required by laws and regulations, or where it is more practical for the external auditor to perform the service. The auditor will continue to perform the Agreed Upon Procedures issued by Ofgem and required by the Licence.

Details of audit and non-audit fees are given in note 7 to the financial statements.

External auditor performance

The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. This also included a review of the effectiveness and quality of the audit process, audit planning and a post-audit evaluation.

External auditor tender and re-appointment

The Company's audit services have not been subject to a tender process since its inception in 2013, therefore the current tenure of KPMG is seven years. The performance of the auditor was reviewed at the Committee meeting on 16 June 2020, when the Committee considered the performance of the auditor to be satisfactor and recommended to the Board that the auditor be reappointed.

Internal control & risk management

The Committee is responsible for reviewing the effectiveness of the Company's system of internal control and providing their view to the Board. During 2020, the terms of reference of the Committee were updated to include specific responsibility for reviewing the effectiveness of the Company's risk management system.

The Chief Risk and Business Improvement Officer has presented updates on Licence and Code compliance, internal audit activity and enterprise risk at each Committee meeting. The Committee also receives updates on the progress to completion of all agreed audit, compliance and risk actions.

The 2020 internal audit plan was approved by the Committee in November 2019. The includes both risk-based audits and a rolling schedule of policy audits that will ensure all Company policies are audited over a three-year period. The risk-based audit schedule for 2020 will include focus on security, operational performance, business continuity, and data protection.

Enterprise risks were reviewed at each Committee meeting. In November 2019, the Committee requested an update of the Company risk assessment approach to improve clarity, and also requested that safety, health and environment (SHE) risk be added to the enterprise risk register.

The effectiveness of the internal controls framework and the risk management system was reviewed in November 2019 and March 2020. Following the continued development and maturing of the DCC operating model, the Company has updated both the Licence-mandated risk management strategy and the internal controls document to reflect the improvement to the risks and controls framework which is now being operated.

The Committee have assured the quality, experience and expertise of the internal control and risk management function through review of the papers and materials presented to both the Committee and Board, and in addition through regular meeting between the Chair and the Chief Risk and Business Improvement Officer.

Regular reporting to the Committee during the year included;

- Reporting on the completion and outcomes of planned controls and compliance monitoring activity
- Reporting on the completion and outcomes of planned internal audit activity, including findings, risk assessment and recommendations
- Reporting on the enterprise risk assessment and risk scanning, and review and approval of associated changes to risk assessments and proposed mitigations
- Reporting on the completion of agreed internal audit, risk, and compliance related actions, and measures taken to manage overdue or outstanding actions

Barbara Anderson

Chair

30 June 2020

DCC Public

Directors' remuneration report

Members:	
• Richard McCarthy	• Phil Male
• Barbara Anderson	• Mark Mathieson

Annual Statement

I am pleased to present the Remuneration Committee report for the year ended 31 March 2020. The objectives of the Committee have remained unchanged in the year and its focus has remained on ensuring that the remuneration policy of the Company continues to attract high quality employees and retain and motivate the existing workforce. The Committee welcomes the changes introduced by the Code and has made progress on embedding these changes throughout the year. Actions are planned for the first half of 2021 to complete the implementation of all required changes.

Key activities of the committee during the year included:

- The review of the remuneration policy for executive directors and members of the Executive Committee for 2021
- Approval of annual payments for 2019 under the annual bonus scheme and the retention scheme (2018-2020)
- Agreement of the design and targets of the 2021 annual bonus scheme

How the Committee operates

The Committee has an annual agenda to cover the key planning and decision events in the annual remuneration cycle.

Each meeting is supported by an agenda-setting discussion held in advance with the Chair, CFO and CEO to identify any issues affecting remuneration that may require consideration by the Committee.

At each meeting the members may receive reports and presentations covering wider workforce arrangements which include the annual pay and bonus review, incentive scheme arrangements, and gender pay reporting.

The Committee's terms of reference set out the role, responsibilities and authority of the Committee and can be found on the Company's website at www.smartdcc.co.uk/about/governance.

Remuneration Committee membership and attendance

Three members of the Committee are independent non-executive directors and two are non-executive directors. Although the composition of the Committee is not in compliance with the Code because not all members are independent, it is considered to be suitable given the size of the Company and because the majority of the Committee is comprised of independent non-executive directors. The number of formal meetings held and attendance by each member is shown on page 51. The Company Secretary acts as a secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

Committee discretion

The Committee retains the right to exercise discretion to override formulaic outcomes, to ensure that the level of bonus or award payable is appropriate. It may use its judgement to adjust outcomes downwards to ensure that any payments made reflect overall Company performance and the individual's contribution during the relevant period. Where exercised, the rationale for this discretion will be fully disclosed in the Annual Report.

Remuneration policy

This section sets out the remuneration policy, which is unchanged from the previous year. The Committee is responsible for determining and agreeing with the Board the remuneration policy for the Executive Directors, members of the Executive Committee and the wider workforce. The Committee reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture. As part of the review process the Committee seeks the views of the Executive Directors, who participate in an advisory role and are not involved in the decision-making process.

In setting the remuneration policy, the Committee ensures that the arrangements are in the best interest of both the Company and its stakeholders, taking into account the following general principles;

- Value for money is achieved for customers in accordance with the Company's Licence commitments
- Total remuneration packages are simple and fair so that they are valued by employees
- Total remuneration strongly reflects performance
- Performance-related pay is balanced to achieve both the financial performance objectives and the delivery of sustainable performance

The Committee has ensured that the remuneration policy and practices are consistent with the six factors set out in Provision 40 of the Code:

Consideration of shareholder views

Shareholder representation on the Committee through Richard McCarthy ensures that shareholder views on remuneration policy can be communicated and considered.

Taking our people into account

In determining executive director remuneration policy and practices the Committee also reviews remuneration and related policies across the workforce, as well as the alignment of incentives and rewards with our culture. The remuneration policy for executive directors is the same as that applied for all employees.

Clarity	The policy is well understood by the executive directors and clearly articulated to the parent company and the wider workforce.
Simplicity	The policy is well established and does not include complicated reward structures. The incentive schemes have been designed to be as simple as possible with clear and well-defined objectives.
Risk	The Committee considers that there is a low risk of excessive rewards because of the strict policy in place to benchmark base salaries and its right to exercise discretion to override formulaic outcomes of variable pay. Objectives have been designed to minimise behavioural risk associated with target-based incentive schemes.
Predictability	The value range of possible rewards to the executive directors can be easily identified through the analysis of individual performance scores and performance against corporate objectives.
Proportionality	There is a clear link between individual rewards, delivery of strategy and our long-term performance.
Alignment to culture	The remuneration policy is fully aligned to the DCC's culture by using metrics in both the annual bonus and the retention scheme that measure how we perform against financial and non-financial objectives, including employee and supplier-related targets. There is no difference in the policy for executive directors and all employees.

DCC Public

Summary executive director remuneration policy table

The following tables set out the key aspects of the policy.

Base salary

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive and appropriately benchmarked.	Normally reviewed annually in March with any changes usually effective in April. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: • Comparable salaries in the market • Economic climate • Company performance • The role and responsibility of the individual director • Employee remuneration across the broader workforce.	There is no prescribed maximum monetary annual increase to base salaries, but an increase is normally in line with inflation. A higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstance. Any annual increase in salaries is at the discretion of the Committee.	Performance against personal objectives in the year will determine a level of rate increase, but any uplift is at the discretion of the Committee.

Performance bonus scheme (annual bonus)

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Incentivises delivery of the business plan on an annual basis, and rewards performance against corporate and individual objectives set at the beginning of each year.	At the end of the year the Committee approves the Company's performance against the corporate objectives, which accounts for 60% of the pay-out. The remainder is dependent on the assessment of individual performance against objectives set at the beginning of the year. The committee approves individual performance for the CEO and CFO. The Committee has full discretion to adjust outcomes under the annual bonus scheme.	The maximum opportunity is 62.5% of base salary.	The Committee will determine the appropriate corporate objectives at the start of the financial year, with a balance of objectives based on financial performance, operational performance and strategic focus. Performance against each objective is measured at three levels; threshold performance (75%), at target performance (100%) and stretch performance (125%). The Committee retains the discretion to adopt any corporate objective that is relevant to the Company.

Retention bonus scheme

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Rewards and retains executives over the longer term, and links reward to performance against longer-term objectives set at the beginning of the scheme.	The first two-year scheme commenced in 2018 and concluded in March 2020. A new long-term incentive plan is currently being reviewed by the Committee for 2021 onwards. At the beginning of the scheme the Committee determines appropriate longer-term objectives and will approve performance against these objectives when the scheme concludes. The Committee has full discretion to adjust outcomes under the retention bonus scheme.	The maximum opportunity is 60% of base salary.	The Committee will determine the appropriate financial, operational and strategic objectives at the start of the scheme. Performance against each objective is measured at three levels; threshold performance (80%), at target performance (100%) and stretch performance (120%). The Committee retains the discretion to adopt any objective that is relevant to the Company.

Non-Executive Director (NED) fees

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Market competitive fees are set to attract and retain NEDs with required skills, experience and knowledge so that the Board can effectively carry out its responsibility.	For the year ended March 2020 all NED fees have been on a day-rate basis, with each NED earning the same day rate. From July 2020 the structure of NED fees will be changing to comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior Independent Director • Committee Chair for any committee of the Board. No NED participates in the Company's incentive arrangements or pension plan or receives any other benefits.	For the year ended March 2020 there was no prescribed maximum fee charge. The day rate was set at £1,966 per day. From July 2020 the annual basic fee will be £45,000, with additional fees of £5,000 for additional responsibility as a Senior Independent Director or Committee Chair.	Not performance related.

Annual bonus scheme 2020

Executive directors are entitled to an annual bonus under the Company's performance bonus scheme. The scheme is applicable for all employees who meet the eligibility criteria. The maximum bonus entitlement is split between:

- Performance against corporate objectives (60%)
- Individual performance against personal objectives (40%)

The corporate objectives are set at the beginning of the financial year by the Board. Performance against them is assessed by the Committee and achievement as at end of March 2020 was agreed at 106%, detailed in the table below:

Objective area	Corporate objective	Weighting	Target performance	Final performance
Customer and operations	Deliver our business to provide reliable and secure live service, make the DCC easy to use and improve customers' experience.	24%	24%	15%
Delivering the 2019/20 roadmap	Deliver new functionality and services in line with committed delivery plans and security requirements, make it easy to innovate on the DCC system, and develop solutions to enable innovation of current and future customer requirements.	32%	32%	37%
Security	Deliver a threat-led security function to identify, protect, detect, respond and recover from security threats.	4%	4%	4%
Financial and commercial	Deliver mandatory activities within the planned budget through good financial management.	30%	30%	37.5%
People	Ensure the DCC is a rewarding place to work, leading to increased levels of employee engagement and satisfaction.	10%	10%	12.5%
			100%	**106%**

Retention bonus scheme

In 2018, the Board approved the creation of a retention bonus scheme, which ran from 1 April 2018 to 31 March 2020. The aim of this scheme was to incentivise retention of staff during a critical phase of key programmes and to avoid loss of corporate memory. All permanent employees of the Company at the commencement of the scheme were eligible, and only those remaining at the end of the scheme are eligible for a pay-out. Final performance against the scheme objectives was assessed by the committee and agreed at 66%, detailed in the table below:

Objective area	Corporate objective	Weighting	Target performance	Final performance
Operational performance	• Average performance across operational performance regime • Customer effort score	33.33%	33.33%	30%
Cost competitiveness	• Cumulative cost savings over two-year period • Average cost disallowance through price control assessment	33.33%	33.33%	36%
Communications hubs installations	Total SMETS1 & SMETS2 communications hubs installations	33.33%	33.33%	0%
			100%	**66%**

Directors' service agreements

The service contracts for executive directors are for an indefinite period and provide for a six-month notice period. There are no arrangements in place between the Company and its directors to provide compensation for loss of office.

Non-executive directors' terms of engagement

Independent non-executive directors are appointed by letter of appointment for a period no longer than six years. An individual in this role can be re-appointed only once for a further period no longer than six years. Each appointment can be terminated by one month's notice by either party. The letters of appointment are available for inspection during normal business hours at the Company's registered office.

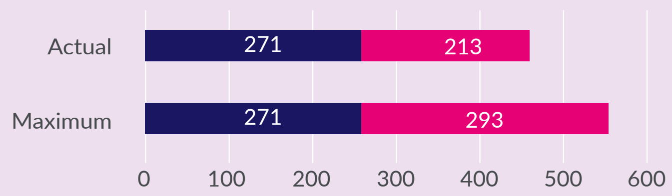
External advice received

During the year the Company QCG was appointed to provide advice on the design of a future long-term incentive plan.

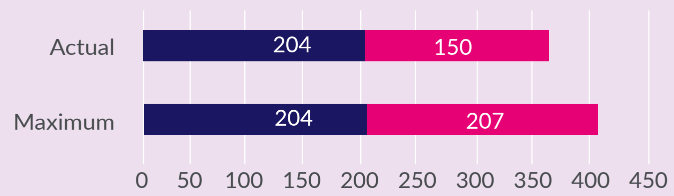
Directors' remuneration earned in 2020 – single-figure table

	Salary & Fees[16] (£)		Taxable benefits [17] (£)		Annual bonus (£)		Retention bonus (£)		Pension related benefits (£)		Total (£)	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Angus Flett	240,661	232,523	18,243	17,543	130,895	126,957	82,093	-	12,033	11,626	483,926	388,649
David Brown	178,748	172,703	17,487	16,055	101,529	99,806	58,070	-	7,667	8,635	363,501	297,199
Richard McCarthy [18]	81,028	90,104	-	-	-	-	-	-	-	-	81,028	90,104
Philip Male	42,684	36,914	-	-	-	-	-	-	-	-	42,684	36,914
William Rickett	3,875	29,651	-	-	-	-	-	-	-	-	3,875	29,651
Mark Mathieson	35,388	43,403	-	-	-	-	-	-	-	-	35,388	43,403
Barbara Anderson	62,912	-	-	-	-	-	-	-	-	-	62,912	-
Patrick Elliott [19]	10,043	-	-	-	-	-	-	-	-	-	10,043	-

Angus Flett (£'000s)



David Brown (£'000s)



Total remuneration for the highest paid director is 4.8 times the average total remuneration of all employees.

The value and composition of the executive directors' remuneration for the year compared to the maximum achievable is shown in the charts above. The charts are broken down to show how the total is composed of both fixed and variable elements of remuneration.

Richard McCarthy CBE
Chairman
30 June 2020

16 Inclusive of PAYE.
17 Taxable benefits are composed of car allowance and optional benefits selected by the employee. Examples of available benefits are private healthcare and critical illness cover.
18 These values represent the allocation of Richard McCarthy's cost in relation to time worked for the DCC.
19 This value represents the allocation of Patrick Elliot's cost in relation to time worked for the DCC.

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the Company's financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

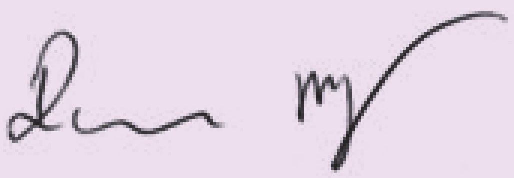
The directors have decided to prepare voluntarily a corporate governance statement and directors' remuneration report as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and a directors' report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board,



Richard McCarthy CBE
Chairman
30 June 2020

Independent auditor's report to the members of Smart DCC Limited

Opinion

We have audited the Regulatory Financial Statements of Smart DCC Limited ('the Company') for the year ended 31 March 2020 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes to the Regulatory Financial Statements. The financial reporting framework that has been applied in their preparation is Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

In our opinion the Regulatory Financial Statements have been properly prepared, in all material respects, in accordance with Condition 30 of the Regulatory Licence and the accounting policies set out therein.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 5 May 2020 and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - special purpose basis of preparation

We draw attention to note 2 to the Regulatory Financial Statements, which describes their basis of preparation. As explained in that note, the Regulatory Financial Statements have been prepared to assist the Company in complying with Condition 30 of the Company's Regulatory Licence. The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment. The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ('IFRS'). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. As a result, the Regulatory Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from year ended 31 March 2019):

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £8,000,000 (2019: £8,100,000), determined with reference to a benchmark of revenue, of which it represents 1.8% (2019: 2.1%). We consider revenue to be more appropriate than a profit-based benchmark given that the company has been set up not to generate a profit.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £400,000 (2019: £420,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We applied a lower materiality to administrative expenses as 32% (2019: 37%) of this balance relates to services procured from the parent company. We considered that the users of the financial statements, particularly Service Users, were likely to be concerned that expenses paid to the parent company had not been overstated.

The materiality for administrative expenses was set at £2,000,000 (2019: £2,000,000), determined with reference to a benchmark of administrative expenses, of which it represents 1.8% (2019: 2.4%).

We report to the Audit Committee any corrected or uncorrected identified misstatements relating to administrative expenses exceeding £100,000 (2019: £100,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality levels specified above and was performed at the company's head office in London.

	The risk	Our response
Costs incurred and revenue recognition £447.6 million 2019: £399.5 million (costs incurred is the aggregate of costs of sales, administrative expenses, depreciation and finance costs, with revenue as per the Statement of Profit or Loss and Other Comprehensive Income **Risk vs 2019:** Refer to page 56 (Audit Committee Report), Statement of Profit or Loss and Other Comprehensive Income), and note 2 of the financial statements	The company is required to operate in accordance with the terms of the Smart Meter Communication Licence (the Licence) which permits it to recharge certain costs to Service Users (customers). Service Users are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters. **Accounting application** The amount of total costs recognised in the financial statements for the period and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised in the financial statements. As such there is a risk that if costs are not accurately recorded within the financial statements, revenue would also be misstated. **2019/20 Costs** Certain costs incurred by the Company are recognised upon the achievement of a contractually agreed milestone. There is a risk that milestones have not been achieved during the current year and costs are not recognised accurately. **Risk of fraud or error** Certain costs incurred by the company are charged by Service Providers, who are companies contracted to provide services to Smart DCC, based on the achievement of milestones. The Company recognises these costs based on its estimate of the stage of completion of each milestone. There is a risk that recognition of costs (and therefore revenue) does not represent the actual stage of completion leading to an understatement or overstatement of costs.	**Our procedures included** **Test of controls** • testing relevant controls over expense recognition and recording in the financial statements. **Tests of details** • agreeing the amounts recorded for a sample of costs incurred and identified as chargeable to Service Users, using a statistical method of sampling, to source documentation (for example, invoices and/or contracts), in order to establish, whether the amounts were accurately recorded; • inspecting the invoices and where applicable, contracts supporting the sample of costs selected and challenging whether they were consistent in nature with the provision of services under the Licence, based on Smart DCC's charging framework, and therefore could be recharged to service users. **Tests of details** for contractual milestones which have been deemed as achieved by Service Providers during the year, we selected a statistical sample of milestone achievements to evaluate if costs had been appropriately recognised. For all items in our statistical sample we inspected the terms and conditions of the relevant contract, payment request of the Service Provider, and the milestone completion certificated issued by Smart DCC. We agreed all milestones recognised in the year to a third party confirmations obtained from the Service Providers. **Tests of details** where contractual milestones had not been achieved as at 31 March 2020 we assessed the reasonableness of the estimate of costs incurred for milestones that are in progress but not yet achieved for a statistical sample, by: i) obtaining the stage of completion estimate prepared by Smart DCC and comparing it to confirmations of progress provided by the Service Providers to Smart DCC, investigating any significant differences; and ii) comparing the total estimated value of the milestone to the contract or impact assessment.

We have nothing to report on going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the Regulatory Financial Statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- losing its Licence due to a revocation event or service failure or reputational damage, putting future licence renewal at risk;
- threat to the Company delivering expected business performance.

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in pricing pressure leading to higher cost of delivery of the switching programme.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the Regulatory Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the Regulatory Financial Statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Regulatory Financial Statements. Our opinion on the Regulatory Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Regulatory Financial Statements audit work, the information therein is materially misstated or inconsistent with the Regulatory Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the Regulatory Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In addition to our audit of the Regulatory Financial Statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the Company.

Disclosures of principal and emerging risks and longer-term viability

Based on the knowledge we acquired during our Regulatory Financial Statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the directors' statement of longer-term viability (page 45) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the longer-term viability of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our Regulatory Financial Statements audit and the directors' statement that they consider that the annual report and Regulatory Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in these respects.

We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Regulatory Financial Statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 67, the directors are responsible for: the preparation of the Regulatory Financial Statements in accordance with the Condition 30 of the Regulatory Licence and the accounting policies set out therein; such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Regulatory Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Financial Statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

- Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition 30 of the Company's Regulatory Licence. Where Condition 30 of the Company's Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Financial Statements are consistent with those used in the preparation of the statutory financial statements of the Company.

The purpose of our audit work and to whom we owe our responsibilities

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory financial statements of the Company. Our audit report in relation to the statutory financial statements of the Company (our "statutory" audit) was made solely to the Company members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our statutory audit work, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

George Richards (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

30 June 2020

Financial Statements

Statement of profit and loss and other comprehensive income

	Notes	2020 £'000	2019 £'000
Revenue	3	433,046	384,215
Cost of sales	5	(320,355)	(302,112)
Gross Profit		**112,691**	**82,103**
Administrative expenses	6	(110,993)	(81,715)
Operating profit		**1,698**	**388**
Depreciation	12	(1,513)	(83)
Finance income	9	14,519	15,267
Finance costs	9	(14,704)	(15,572)
Profit before taxation		–	–
Tax	10	–	–
Result for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year attributable to the owners of the Company		–	–

The notes on pages 78 to 95 form an integral part of the financial statements.

Statement of financial position as at 31 March 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current Assets			
Unbilled revenue due in more than one year	11	487,365	469,310
Property, plant and equipment	12	10,072	5,831
Total non-current assets		**497,437**	**475,141**
Current assets			
Trade and other receivables	13	254,709	169,868
Cash and cash equivalents	14	55,000	44,616
Total current assets		**309,709**	**214,484**
Total assets		**807,146**	**689,625**
Liabilities			
Current liabilities			
Trade and other payables	15	284,042	199,074
Deferred revenue		32,055	20,080
Lease liability	16	494	455
Total current liabilities		**316,591**	**219,609**
Non-current liabilities			
Payables due in more than one year	11	487,365	469,310
Lease liability	16	2,500	706
Other non-current liabilities		690	–
Total non-current liabilities		**490,555**	**470,016**
Total liabilities		**807,146**	**689,625**
Total net assets		–	–
Equity			
Share capital	18	–	–
Retained earnings		–	–
Total equity		–	–

The financial statements on pages 75 to 77 were approved and authorised for issue by the Board of Directors on 30 June 2020 and signed on its behalf by:

Richard McCarthy CBE, Chairman
30 June 2020

Smart DCC Limited
Company registered number: 8641679

The notes on pages 78 to 95 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 March 2020

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 April 2018	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2019 and 1 April 2019	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2020	–	–	–

Statement of cash flows for the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Net cash flows from operating activities	20	13,952	7,062
Net cash flows used in investing activities	20	(3,383)	(4,997)
Net cash flows used in financing activities	20	(185)	(305)
Net increase in cash and cash equivalents		10,384	1,760
Cash and cash equivalents at the beginning of the year		44,616	42,856
Cash and cash equivalents at the end of year	14	**55,000**	**44,616**

The notes on pages 78 to 95 form an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 March 2020

1. GENERAL INFORMATION

Smart DCC Limited is a private Company incorporated, domiciled and registered in England and Wales under the Companies Act 2006. The address of the registered office is 30 Berners Street, London, England, W1T 3LR. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 14 to 45 but can be summarised as managing the delivery of services to Great Britain's energy industry that facilitates secure communications between energy systems and smart meters.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The financial statements have been prepared on the historical cost basis. Historical cost is based on the fair value of the consideration given in exchange for goods and services. The significant accounting policies adopted are set out below.

b) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2020, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration of the current Covid-19 pandemic in the UK, for the reasons set out below.

As at the balance sheet date, the company had net current liabilities of £6.8m which include a balance of deferred revenue of £32m related to timing difference between billing customers against costs incurred (excluding the £32m timing difference the company is in a net current asset position of £25m). The Company also has liquidity balance of £55m represented in cash and cash equivalents.

As at the date of signing of the financial statements the Company has not suffered any adverse operational or financial effects as result of Covid-19. The Directors consider that it is unlikely that there will any material impact to the Company going forward based on the assessment undertaken.

Management has modelled several plausible downside case scenarios that cover the period to 31 March 2022. As the Company is entirely funded by SEC Parties, who are also impacted by the pandemic, the plausible downside case scenarios focus on the impact of lack of payment by customers. These cases represent a range of scenarios, modelled to present cases that the Directors consider are extremely prudent and unlikely to occur. However, by considering such cases management has ensured that mitigations the Company has in place would be sufficient to ensure adequate liquidity in extreme circumstances.

The Company is unique in having legal mechanisms in place under the SEC that significantly minimise both the risk and impact of customers not paying invoices:

i) An invoice payment cycle and terms set out in the SEC that require customers to make payments within five working days of receipt of invoice. If customers fail to pay their invoices they are in breach of their obligations as SEC Parties.

ii) A requirement that customers that meet the relevant credit criteria provide credit support in the form of a bank guarantee, letter of credit, or a cash deposit (refer to note 19. Financial instruments). The Company holds sufficient credit cover for at least one months' worth of invoicing for most customers. Support provided via guarantee or a letter of credit is payable on demand once requested.

iii) After taking all reasonable steps to obtain payments, any outstanding customer debt that the Company is unable to recover can be recovered from all other customers.

iv) The Company sets charges for the year in advance (refer to note 2d. Revenue). However, it can revise these charges within the year if required to ensure it has enough funds.

v) In the event of a customer ceasing to trade, Ofgem's 'Supplier of Last Resort' process would apply. Any outstanding debt would be recovered from all other customers.

In addition, the Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15m.

The Directors have reviewed the impact on monthly closing cash balances of the following plausible downside scenarios:

1. The six largest[20] customers failing to pay one months' invoice in the same month
2. The largest customer failing to pay invoices for three consecutive months
3. The largest customer failing to pay invoices for six consecutive months
4. Several medium[21] sized customers failing to pay invoices for the same three consecutive months
5. All smaller[22] customers failing to pay invoices for the same six consecutive months

In all scenarios it has been assumed that failure to pay would arise in the nearby months through 2020 as customers may have experienced cashflow issues through the lockdown period.

The impact of each scenario has been assessed after allocation of available credit cover, as this would be allocated immediately in the event of payment default.

If payment plans could not be agreed any outstanding debt would be recovered from all other customers in the next available billing month.

The most severe downside case modelled by management indicates the greatest negative impact on the Company's cashflows but is considered by both management and the Directors to be highly improbable. Any indication of such a scenario arising would be highlighted early on through engagement mechanisms in place with the customer, the SEC Panel, Ofgem and the Department for Business, Energy and Industrial Strategy. Due to the Company's role as part of critical national infrastructure in delivering smart metering services, Directors expect that the government would use is Special Administration Regime provisions to intervene if a severe scenario was to materialise.

The Directors have also considered the impact of the withdrawal of the UK from the EU and have assessed there to be low risk to the Company.

At the same time as the approval and signing of this Annual Report the Directors have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. Further detail is contained in the Strategic Report on pages 14 to 45.

c) Functional and presentational currency

These financial statements are presented in Pounds Sterling which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

[20] Determined by value of monthly invoices
[21] Customers just outside the top six largest customers
[22] Customers with monthly invoices less than £0.3m

d) Use of judgements and estimates

In preparing these financial statements, management has made judgements and estimates that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

There have been no changes to judgements or assumptions made in relation to Covid-19.

e) Changes in accounting policies

A number of new or amended standards are effective from 1 January 2019 but they do not have a material effect on the Company's financial statements. IFRS 16 Leases was early adopted for the year ended 31 March 2019.

f) Revenue

The principle activity of the Company is the delivery and operation of the smart metering communication service in Great Britain to the energy industry (the Company's customers). All revenue, result, assets and cash flows in the current and prior year have arisen from the provision of core communication Services under the mandatory business of the Company, as set out in the Licence.

The Company's revenue is generated from the delivery and operation of the smart metering communication service to the energy industry. Revenue is equivalent to the value of costs incurred and margins earned in delivering and operating this service, as the Company currently operates on a nil profit model. The costs incurred by the Company are assessed by Ofgem on an annual basis. If Ofgem determines any costs that should not be recovered from customers, this value will reduce revenue in a future year. Ofgem also determines whether the Company can earn margin for additional activities. Any margin awarded is recognised as revenue in the relevant years in which the activities are delivered.

All energy suppliers that have adhered to the SEC are deemed to be customers of the Company. The Company does not have individual contracts with each customer, but the Company deems the contract to be the arrangement in place under the SEC. The duration of the contract is currently until August 2025, which is in line with the duration of the Licence. The delivery and operation of the smart metering communication service is considered a single performance obligation in the Licence. The Company recognise revenue in relation to this activity over time as the service is delivered.

Customers are billed for the service in line with the Charging Methodology set out in the SEC. Charges for the year are set in advance and are based on expected cashflow over the next 12 months. Therefore, a proportion of the Company's revenue is billed in the year. The remainder will be billed in future years and represents amounts due from customers for work completed in the period but not due for payment as at the reporting date. This balance is included within trade receivables for amounts that will be billed within 12 months, and in non-current assets for amounts that will be billed after 12 months. A contract asset is not recognised as the Company has an unconditional right to consideration for work completed, subject to price control assessment by Ofgem.

With respect to some of the goods and services that customers receive directly from Service Providers, including communication hubs, the Company is acting as an agent and accounting for revenue and associated costs accordingly. The Company does not earn any commission on these services. The amounts owed for the services and the amounts to be recovered from customers are recognised in the Statement of Financial Position. No amounts are recognised in the Statement of Profit or Loss.

g) Taxation

Tax is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. DCC's operating model is such that all costs match the revenues for the year, which leads to a zero-tax liability.

h) Recognition of costs for work completed against contracts

Amounts due to Service Providers in respect of work completed against contractual milestones and other contractual obligations are recognised based on the stage of completion of work where this can be reliably estimated. The cost and revenue associated with each milestone or obligation is therefore recognised to the extent that work has been completed. If the stage of completion cannot be reliably estimated the cost and revenue associated with each milestone or obligation is recognised when fully achieved. Finance costs are accounted for as part of cost of sales as these costs are directly attributable to revenue and they would not have arisen if sales were not made.

Costs that have been recognised at the reporting date but have not been paid are recognised as a liability; initially at fair value, and then subsequently at amortised cost. Amounts due within 12 months of the reporting date are recognised as a current liability. Amounts due after 12 months are recognised as a non-current liability. Liabilities are recoverable through future charges to customers and therefore a corresponding asset is recognised in the Statement of Financial Position.

i) Financial instruments

i. Recognition and initial measurement
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value. For a financial asset or financial liability not measured at fair value through profit and loss (FVTPL), it is recognised at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement
On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Financial assets at FVOCI – debit investments	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Financial assets at FVOCI – equity investments	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Impairment

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset (excluding receivables) is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company, from 1 April 2018, will measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses. In determining credit risk, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, and forward-looking information.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

v. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

j) Leases

The Company entered into a property lease arrangement in January 2019 and chose to early adopt IFRS 16 for the year ended 31 March 2019 (IFRS 16 was effective for periods starting on or after 1 January 2019). Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

i. fixed payments (including in-substance fixed payments), less any lease incentives receivable;

ii. variable lease payment that are based on an index or a rate;

iii. amounts expected to be payable by the lessee under residual value guarantees;

iv. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

v. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

i. the amount of the initial measurement of lease liability;

ii. any lease payments made at or before the commencement date less any lease incentives received;

iii. any initial direct costs; and

iv. restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

k) Property, plant and equipment

roperty, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Freehold buildings and long leasehold property – not applicable
- Leasehold improvements – period of the lease
- Plant and equipment – 2 to 10 years

Depreciation is only calculated once the asset becomes available for use. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the Statement of Profit and Loss in the administrative expenses line item. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Profit and Loss in the year in which the item is derecognised.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

i. An analysis of the Company's revenue is as follows:

	2020 £'000	2019 £'000
Continuing operations		
Charges to customers (excluding amounts relating to finance	472,000	384,142
Accrued income	(38,954)	73
	433,046	**384,215**

Accrued income represents revenue earned in the year for work completed by our key Service Providers in line with contractual obligations, to be billed to customers in future periods, offset against amounts billed to customers for revenue earned in previous periods. In 2020, the value of new work completed is significantly lower than in previous years as set-up related activity is reducing on the SMETS2 programme.

ii. Contract balances

The following table provides information about opening and closing receivables from contracts with customers:

	2020 £'000	2019 £'000
Unbilled receivables due >12 months	301,403	393,347
Trade receivables	181,545	128,903
	482,948	**522,250**

4. OPERATING SEGMENTS

Segmental revenue and results (Mandatory Business Services – core communication)

All revenue, result, assets and cash flows arise from the provision of Core Communication Services under the Mandatory Business of the Company, therefore there is one segment for revenue and results.

Geographical information (external customers)

The Company's revenue has all arisen from Great Britain for services provided to British energy suppliers.

Information about major customers

During the year the Company earned revenue from 156 customers. Of these, two customers, British Gas Trading Limited and E.ON Energy Solutions Limited, individually each contributed to more than 10% of revenue.

5. COST OF SALES

	2020 £'000	2019 £'000
External costs	284,433	268,358
Pass through costs	30,969	26,122
Other external costs	4,953	7,632
	320,355	**302,112**

External costs represent costs incurred by our key Service Providers for the set up and delivery of the smart metering communication service. These Service Providers include the data service provider, the communication service provider and SMETS1 Service Providers. Pass through costs are collected on behalf of the Smart Energy Code administrator SECCo Ltd, and the AltHANCo. Other external costs represent amounts for other Service Providers providing services directly related to the set up and delivery of the smart metering communication service, such as the SMKI Trusted Service Provider, that are not defined as external costs in the Licence.

6. ADMINISTRATIVE EXPENSES

	2020 £'000	2019 £'000
Staff costs	53,508	44,686
Margin and gain share	13,886	13,773
Professional fees	14,550	7,493
Corporate overhead	6,512	6,118
IT operating expenses	15,302	4,733
Office accommodation	3,849	1,866
Recruitment costs	1,154	1,014
Travel and subsistence	1,573	1,716
Other costs	659	316
	110,993	**81,715**

Margin and gain share reflects the relevant price control results recognised in the year. Disallowed costs are presented against the relevant expense category, that costs were disallowed for.

7. AUDITOR'S REMUNERATION

An analysis of the auditor's remuneration is as follows:

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the annual accounts	59	50
Total audit fee	**59**	**50**
Fees payable to the Company's auditor for other services to other assurance services	30	26
Total non-audit fee	**30**	**26**

Total fees of £71,400 were due to the auditor as at 31 March 2020 (2019: £60,912). Other assurance services include review of a certificate of financial resources and carrying out of a set of Agreed Upon Procedures, as required under the terms of the Licence.

8. STAFF COSTS

Staff are legally employed by a related party, Capita Business Services Limited (CBSL) for the benefit of the Company. Staff costs incurred by CBSL on behalf of the Company are recharged to the Company on a monthly basis at cost, with an overhead charge added. This includes pension contributions made by CBSL for employees enrolled in the Capita defined benefit pension scheme, the liability for which is included in the financial statements of the ultimate parent undertaking. No costs associated with the administration of the scheme are charged to the Company.

The average monthly number of employees (including Directors) was:

	2020	2019
Operations	178	84
Programme management	123	79
Finance, Commercial, Legal and Facilities	84	68
Technology	69	141
Other	77	51
	531	**423**

During the year the Company restructured the technology department, with employees being migrated into operations and programme management.

Their aggregate remuneration (including overhead) comprised:

	2020 £'000	2019 £'000
Wages and salaries	47,913	44,888
Severance pay	551	90
Social security costs	3,862	3,260
Other pension costs	1,182	693
	53,508	**48,931**

9. FINANCE INCOME AND COSTS

	2020 £'000	2019 £'000
Finance income		
Recovery of finance costs from customers	14,519	15,267
Total finance income	**14,519**	**15,267**
Finance costs		
Finance costs on milestone repayments	(14,519)	(15,267)
Lease interest expense	–	(17)
Finance bond interest and charges	(174)	(283)
Bank service charges	(11)	(5)
Total finance costs	**(14,704)**	**(15,572)**

10. TAX

	2020 £'000	2019 £'000
Current tax	–	–
Deferred tax	–	–
	–	–

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 19% (2019: 19%). No tax amounts have been recognised directly in equity during the year (2019: £nil).

11. NON-CURRENT ASSETS AND LIABILITIES

Included in both non-current assets and non-current liabilities are amounts of £487.4m (2019: £469.3m), representing amounts due from customers and due to Service Providers respectively.

	2020 £'000	2019 £'000
Unbilled receivables in respect of milestoness	301,403	393,347
Unbilled receivables in respect of communication hubs	185,962	75,963
	487,365	**469,310**

	2020 £'000	2019 £'000
Supplier payables in respect of milestones	301,403	393,347
Supplier in respect of communication hubs	185,962	75,963
Provision for lease hold restoration costs	690	–
	488,055	**469,310**

At 31 March 2020, our Service Providers had achieved multiple contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, hence a non-current liability of £301.4m (2019: £393.3m) has been recognised, representing amounts payable after 31 March 2020.

These amounts will be recoverable from customers and therefore, a corresponding amount of £301.4m (2019: £393.3m) has been recognised as a non-current asset.

In addition, our Service Providers have been providing our customers with SMETS2 communication hubs. These hubs are installed in consumer homes and allow our customers to use our network. The cost of a communication hub is charged to DCC by our Service Providers over time, and similarly we recover the value of a communications hub to our customers over the same time period at the same value. As at the end of the reporting period we have recognised the amounts payable over 12 months for communication hubs accepted by customers at £186.0m (2018: £76.0m). The increase in comparison to the prior period is driven by the volume of communications hubs ordered by customers, which has increased significantly during the year, as the SMETS2 installations gain pace.

These amounts will be recoverable from customers and therefore, a corresponding amount of £186.0m (2019: £76.0m) has been recognised as a non-current asset.

All remaining balances are recoverable over a maximum period of eight years until the end of the supplier's contracts.

12. PROPERTY, PLANT AND EQUIPMENT

	Assets under construction £'000	Leasehold improvements £'000	Land and buildings £'000	Total £'000
Cost or valuation				
At 31 March 2019	4,997	–	917	5,914
Additions	3,383	–	2,371	5,754
Transfers	(8,380)	8,380	–	–
Disposals	–	–	–	–
At 31 March 2020	**–**	**8,380**	**3,288**	**11,668**
Depreciation				
At 31 March 2019	–	–	(83)	(83)
Charge for the period	–	(1,048)	(465)	(1,513)
Eliminated on disposal	–	–	–	–
At 31 March 2020	**–**	**(1,048)**	**(548)**	**(1,596)**
Carrying amount				
At 31 March 2019	4,997	–	834	5,831
At 31 March 2020	**–**	**7,332**	**2,740**	**10,072**

At year end, the net carrying amount of land and buildings was £2,740k (2019: £834k) which relates to the lease of Brabazon House, Manchester. The lease obligations are disclosed in note 16. The additions to assets under construction in the period relates to the completion of the development of the innovation hub at Brabazon House. Once the work on Brabazon House was complete and available for use, in June 2019, the assets under construction were transferred to leasehold improvements and depreciation was applied on a straight line basis to the end of the lease.

13. TRADE AND OTHER RECEIVABLES

	2020 £'000	2019 £'000
Unbilled receivable for milestones due in less than 12 months	176,761	126,635
Unbilled receivable for communication hubs due in less than 12 months	26,043	9,461
Accrued income	44,255	30,796
Trade receivables due from customers	4,784	2,268
Related party receivable	–	12
Prepayments	1,584	303
Other receivables	1,282	393
	254,709	**169,868**

Unbilled receivables of £202.8m (2019: £136.1m) is the amount to be recovered in the next year from customers for work completed as at the reporting date, and for communication hubs accepted by customers as at the reporting date. The corresponding amount due to Service Providers less payments in advance is recognised in trade payables (see note 15). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. Accrued income represents amounts due from customers for the month of March 2020 but billed in April 2020, therefore not received at the reporting date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month. The average credit period taken on sales of service is five days from receipt of invoice.

In accordance with Section J of the SEC, the Company determines if credit cover is required for each customer. If it is required customers provide Credit Support in the form of a bank guarantee, a letter of credit, or a cash deposit. The value of Credit Support must be equal to or greater than the customer's credit cover requirement, which is calculated on a weekly basis as specified in the SEC. If a user fails to pay their invoice by the due date and a notice has been issued, the Company can claim unpaid amounts plus interest from the Credit Support provided. If a customer does not have enough credit cover in place to cover their outstanding balance the Company will investigate other options for recovery of funds, but in all circumstances the option to recover the debt from all other customers is available. In this way the Company is not exposed to any risk of losses.

14. CASH AND CASH EQUIVALENTS

	2020 £'000	2019 £'000
Cash at bank	40,025	38,968
Credit cover deposits from customers	14,975	5,648
	55,000	**44,616**

Cash at bank reflects the amount available for use by the Company.

15. TRADE AND OTHER PAYABLES

	2020 £'000	2019 £'000
Trade payables for milestones due in less than 12 months	174,472	120,402
Trade payables for communication hubs due in less than 12 months	26,043	9,461
Accruals	46,899	48,522
Trade payables due to customers	14,976	5,648
Related party payable	5,702	12,468
Trade payables due to suppliers	10,256	1,387
VAT payable	5,694	592
Interest payable	–	594
	284,042	**199,074**

Amounts due in less than one year for milestones and communication hubs are amounts that are due to be paid in the next year to Service Providers in respect of payments due on in line with supplier contracts at the reporting date. These amounts will be recoverable from customers and therefore an amount of £202.8m (2019: £136.1m) has been recognised in trade and other receivables (see note 13).

Accruals reflect amounts outstanding for costs which will be invoiced subsequent to the year end.

Trade payables due to customers comprise of amounts held as cash deposits from customers for Credit Support.

The Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

16. LEASE LIABILITY

	Carrying amount £'000
At 31 March 2019	1,161
Lease liability addition	2,301
Interest charge	–
Repayments made during the period	(468)
At 31 March 2020	**2,994**
Of which:	
Lease liability due in less than 12 months	494
Lease liability due in more than 12 months	2,500
	2,994

During the year ended 31 March 2020, the Company was granted a lease extension to 2025. The Company recognises depreciation charges and additional interest charges in relation to leases within the statement of profit and loss and other comprehensive income as well as disclosing in the notes to the financial statements.

17. OFF BALANCE SHEET ARRANGEMENTS

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £1,466.9m (2019: £898.4m). This represents payments that the Company is obliged to make in for contractually committed operational charges to Service Providers in line with their contracts from the date of services going live.

18. SHARE CAPITAL

	2020 £'000	2019 £'000
Authorised, issued and fully paid:		
1 ordinary share of £1 each	–	–

19. FINANCIAL INSTRUMENTS

Categories of financial instruments:

	2020 £'000	2019 £'000
Financial Assets at amortised cost		
Unbilled revenue due in more than one year	487,365	469,310
Trade and other receivables	254,709	169,868
Cash and bank balances	55,000	44,616
	797,074	**683,794**

	2020 £'000	2019 £'000
Financial Liabilities at amortised cost		
Payables due in more than one year	487,365	469,310
Trade and other payables	284,043	199,074
Lease liability	2,994	1,161
	774,402	**669,545**

The Directors consider that the carrying amount of all financial assets and liabilities as shown in the table above approximately equal to their fair value. The maturities of assets match exactly to those of the liabilities.

Contractual cash flows of milestones achieved and communication hubs delivered to customers

	2020 £'000	2019 £'000
Contractual cash flows		
1 year or less	194,095	139,337
1 to 2 years	123,277	133,929
2 to 5 years	261,397	219,862
Beyond 5 years	112,519	124,696
Total	**691,288**	**617,824**
Amounts due in more than one year	487,365	469,310
Amounts due in less than one year	200,515	129,863
Carrying amount	**687,880**	**599,173**

FINANCIAL RISK MANAGEMENT

Capital risk

The Company manages its capital to ensure that it can support the business and continue as a going concern. The Company's capital consists of cash, which is managed to ensure there is sufficient operating liquidity at all times. The Company is not subject to any externally imposed capital requirements.

Credit risk

Credit risk is the risk of financial loss to the Company because of a counterparty defaulting on its contractual obligations. The Company trades only with recognised, creditworthy third parties. It is a requirement of Section J of the SEC that all customers provide Credit Support in the form of a bank guarantee, letter of credit, or a cash deposit. The level of Credit Support required is determined by the following formula:

Customer Value at Risk (VaR) x Customer Credit Cover factor

The Credit Cover factor is determined based on recognised credit ratings from independent rating agencies or based on credit assessment scores from independent credit assessment agencies. The requirement is reviewed on a weekly basis by the Company.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Cash balances are held with Lloyds Bank plc.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's policy is to hold cash at a level sufficient for the Company to meet its medium-term payment obligations. The Company does not have external financing, and therefore includes a Prudent Estimate (as defined in the Licence) contingency in charges to customers to allow for timing differences between receipts and payments.

Management monitor the risk of having a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's creditors (e.g. accounts payable, VAT payments) and projected cash receipts from operations. The Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15m.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company is not exposed to any foreign exchange risk as all revenue and costs are in GBP, and all prices with our Service Providers are fixed in GBP. The Company does not have any borrowings subject to fluctuating lending rates and therefore is not exposed to any risk relating to interest rate change.

20. CASH FLOW STATEMENT

	2020 £'000	2019 £'000
Profit for the year	–	–
Adjust for:		
Net finance costs	185	305
Depreciation	1,513	83
Other non-cash movements	2,812	(3,290)
(Increase) in Trade and other receivables	(16,851)	(10,953)
Increase in Trade and other payables	14,318	24,811
Increase (decrease) in Deferred revenue	11,975	(3,894)
Net cash from operating activities	**13,952**	**7,062**
Net cash used in investing activities	**(3,383)**	**(4,997)**
Recovery of finance costs from customers	14,519	15,267
Finance costs on milestone repayments	(14,704)	(15,572)
Net cash used in financing activities	**(185)**	**(305)**

Receivables and payables are those classified as being current and due for settlement within 12 months of the date of the reporting date.

21. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Company is a subsidiary undertaking of Capita Business Services Ltd. The ultimate parent company is Capita plc (Group), incorporated in the UK. Each year the Group reassess whether it has control over the Company as required under IFRS 10. The Group's ability to control the relevant activities of the Company is restricted by the Company's operating Licence. The power that the Group has over the Company's relevant activities, by virtue of owning it, is limited given the restrictions in the Licence. That power is held by the Board of the Company where the Group has minority representation in compliance with the Licence. The Group has therefore not consolidated the Company within its Group accounts.

Key Management Personnel

The total amounts for Directors' remuneration were as follows:

	2020	2019
	£'000	£'000
Salaries, fees, bonuses and benefits in kind	992	796

Included in the amount shown above is £483.9k (2019: £388.6k) in respect of qualifying services for the highest paid Director which was all paid as salary, bonus and benefits. There was £12.0k (2019: £11.6k) paid in pension contributions. The Directors of the Company are considered to be the key management personnel.

Balances and transactions with other group undertakings

	2020	2019
	£'000	£'000
Amounts included in operating profits	90,647	64,928
Amounts owed to related parties	5,702	12,468
Amounts owed from related parties	–	12

The transactions with related parties are concluded on an arm's length basis.

22. EVENTS AFTER BALANCE SHEET DATE

The Covid-19 pandemic is ongoing as at the reporting date but there is still no impact to the balance sheet or to the judgements used at year end.

There were no other significant events subsequent to the reporting date.