

# Internal Costs

2019/20 Price Control supplementary document



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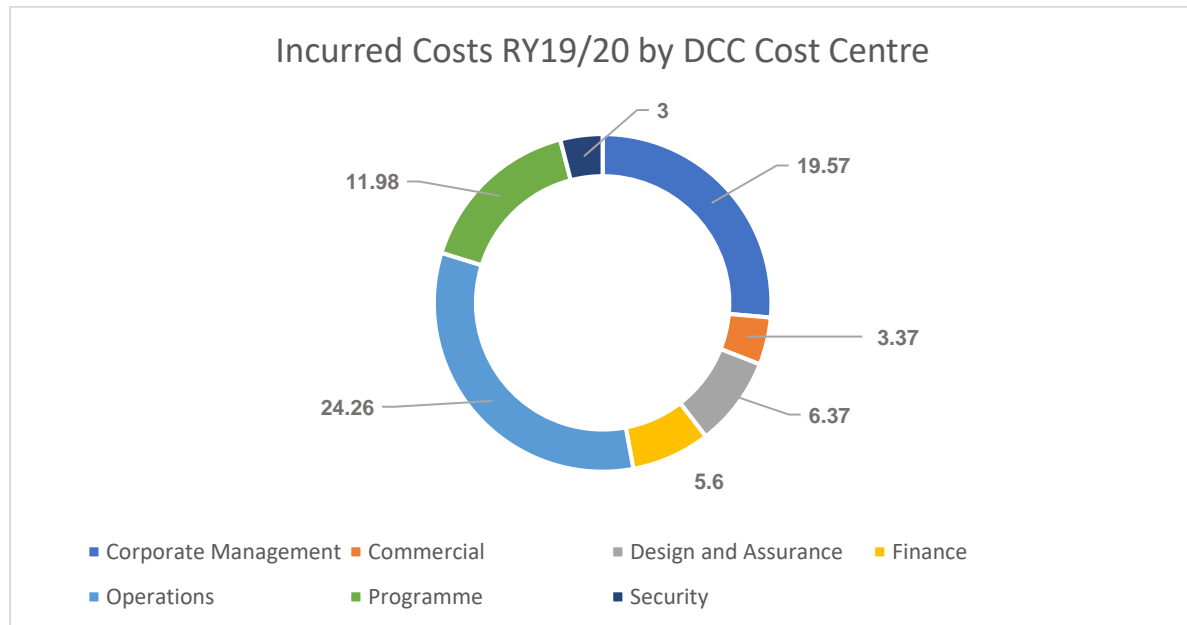
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## 1 Internal Costs Summary

Over the course of RY19/20, DCC has incurred a total of **£103.971m** in internal costs. Internal costs for the SMETS1 and the Switching programmes are not included in this section but instead are set out in the relevant sections of this submission. The chart below shows internal costs by DCC cost centre (SMETS1 and Switching costs are excluded)



**Figure 1: RY19/20 Internal Costs by DCC Cost Centre in £m**

Last year's Internal Costs forecast for RY19/20 was £68.914m. However, Incurred Costs are now £104.812m, approximately 52.1% above last year's forecast. The variances in Internal Costs in RY19/20 are largely driven by activities in the areas summarised below. They will be discussed in greater detail in the rest of this submission.

- **Corporate Management**
  - Refurbishment of Discovery House (Ruddington) and Brabazon House, which included the construction of our new test lab capability that will deliver more efficient and coordinated testing facilities
  - Investment in our new customer engagement portal to improve customer engagement
- **Commercial:**
  - Increase in the number personnel required to support our new and existing project contracts, which have increased in both number and complexity
- **Finance and People**
  - Investment in our processes and reporting
  - Additional finance business partnering resource to work with programmes to ensure good financial and commercial outcomes and value for money for our customers
  - Expansion of our finance and people teams to accommodate the growth in the size of the organisation and additional complexity of programmes
- **Operations**
  - Transfer-in of two teams from the Design and Assurance team into the Operations team, to support the delivery of the test programme

- Improvement to our systems that enable us to coordinate change across the total network more efficiently and effectively
- Investment in our capability to monitor SMETS2 installations and the migration of SMETS1 meters into the DCC ecosystem
- Delivery of our enhanced Comms Hub Order Management System, capable of handling the significant increase in the number of assets scheduled to be in operation as DCC operates at scale
- Investment in our IT provision through enhanced systems using next generation security, allowing us to create greater separation from Capita
- **Design and Assurance**
  - Forecast increase in costs to support the architecture design of aspects of the Network Evolution programme
  - Investment in technology to support testing against the latest technical standards, including testing and setting limits on RF noise created by electricity meters
- **Security**
  - Increase in resource to move DCC to a 'threat-led' security model
- **Programme**
  - Additional resource costs to improve our project and portfolio management capability, our business analysis, and to implement our change delivery methodology
  - Further additional resources to manage the increased team responsibilities such as Switching Operational Readiness and DBT, EIT, Customer Portal, In-Life change and SEC releases and the Communications Hub Order Management System
  - Additional non-resource costs to deliver a range of IT requirements, including BIMi change requests.

## 2 Corporate Management

### 2.1 Purpose, Scope and Structure

The Corporate Management cost centre has evolved each year over the course of the last five price control submissions. Originally intended to include primarily regulatory and strategy functions, it has expanded to include broader corporate capabilities, such as communications, internal controls, and stakeholder engagement. The capabilities can broadly be classified into four different areas:

- **Regulatory Affairs** – including economic regulation, preparation of regulatory documents, engagement in regulatory forums, consideration of the future regulatory regime, customer engagement, stakeholder engagement and code development.
- **Corporate Affairs** - including internal and external communications, website management and broader stakeholder engagement.
- **Strategy and product development** - including planning for the future of DCC, development of an innovation proposition, new product development and annual business planning.
- **Business improvement and internal audit:** this includes capabilities such as internal audit, risk management, regulatory compliance, and broader business continuous improvement.

There is a separate 'sub-cost centre' for each of these functions and each area has a separate business plan that also sets out its responsibilities.

Corporate Management also includes several corporate costs including:

- Accommodation costs including the recent fit outs of Brabazon House and Ruddington, rent, rates, office supplies and equipment.
- The payroll costs associated with DCC's retention scheme for the entire organisation.
- Black Swan crisis management scenario.

### Key events and objectives driving activity and cost

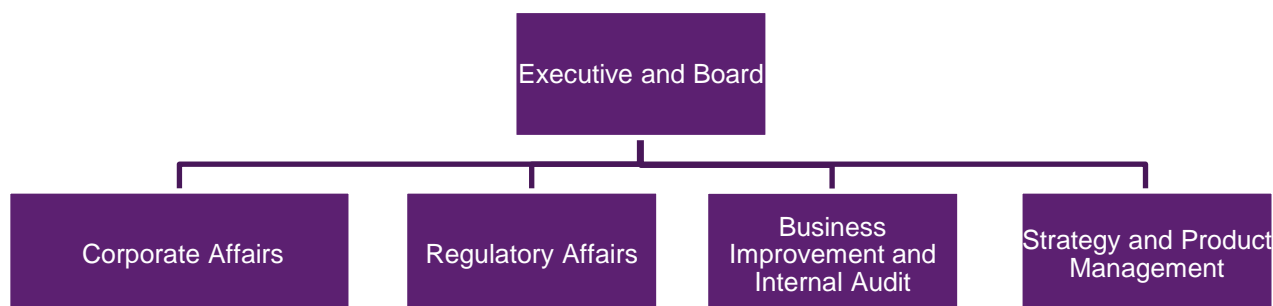
The main deliverables, and therefore the drivers of costs, that have driven activity over the course of RY19/20 include:

- **Regulatory Affairs**
  - Delivering the annual Price Control
  - Enhancing our customer engagement activities including delivering the Customer Engagement Portal
  - Significant governance and code change activities arising from the SMETS1 programme
  - Delivering the regulatory requirements associated with BEIS's Enduring Change of Supplier (ECoS) programme
- **Corporate Affairs**
  - Increasing the team's capability to manage an increasing volume of engagements and digital content relating to SMETS1, SMETS2 and Switching activities
  - Reviewing, refreshing and testing DCC's crisis management framework
  - Improving digital content on DCC's website
- **Strategy and Product Development**
  - Enhancing our engagement with customers on the Business and Development Plan
  - Recruiting and onboarding the Product Management team
  - Undertaking a market assessment to support the development of customers' Elective Services as a precursor to a business case for DCC's Innovation and Growth strategy
- **Business Improvement and Internal Audit**
  - Delivering the Board-approved schedule of Internal Audit
  - Continuous improvement training to a six sigma 'yellow belt' standard for around 15% of DCC staff, building a network of trained 'change agents'
- **Accommodation**
  - Ongoing costs for the refit of Brabazon and Ruddington, as justified in last year's price control submission.

## 2.1.1 Cost Centre Structure

### Current and forecast structure of Corporate Management

The structure of the Corporate Management cost centre has remained the same over this reporting period. There have been resourcing changes within the functions to strengthen capability and capacity. The Corporate Management function structure can be seen below.





Changes at sub-team level have occurred in three cost areas; Regulatory Affairs, Corporate Affairs and Strategy and Product Management. There have been no changes in Business Improvement and Internal Audit. These are discussed further below.

### **Regulatory Affairs**

- Regulatory Affairs has expanded from three teams to five to accommodate new activities. The Regulatory Strategy and Performance Management team was created to focus on regulatory policy and future regulatory requirements, as well as meeting the various corporate obligations that are required in a mature business. The newly formed team has undertaken a range of activities including responding, where appropriate, to a range of consultations, drafting of a medium-term regulatory strategy and considering requirements for an enduring regulatory framework. In addition, the team also has responsibility for internal business planning, corporate reporting and risk management on behalf of the wider Regulatory Affairs team. This work is distinct from the Strategy and Product Management team, who focus on strategy for the development of DCC products and product management.
- We created the Customer Engagement Team within Regulatory Affairs in response to feedback from customers and Ofgem. This team is responsible for the strategy and delivery of engagement on behalf of the wider business. The team brings together a better understanding and response to broader, cross-cutting issues and enable more informed decision-making as a result. This team will continue with incremental improvements and build on the foundations that were set this year.
- The Regulatory Design and Delivery team has been restructured to better align with business functions and introduce improvements and efficiencies in delivering regulatory change to support core mandated programmes. In doing so, the previous Regulatory Manager roles were repurposed to include two Senior Regulatory Managers and two Regulatory Business Partners.

### **Corporate Affairs**

- The team has recruited to fill vacancies and introduced the Head of Customer Communications role. This role will complement cross-team working, oversee communications with customers on elective services and plan for future communications and marketing to new users and potentially new customers as DCC's role evolves. This role also successfully sought customer input as part of this year's Business and Development Plan.
- We introduced a new time-limited role, Programme Communications Manager, to enable dedicated communications associated with our key programmes, and in particular, Switching. This role will expire in 2021.

### **Strategy and Product Management**

- As mentioned in last year's submission, the Business Management team was moved to Executive and Board, where the roles were better aligned with the role profiles.
- As planned, the Product Management team have taken on an additional role in the form of a Proposition Development Manager who will ensure DCC's flexible energy system requirements and Electric Vehicle Charging infrastructure propositions are developed in line with Industry expectations.

## **2.2 Cost Centre Variances**

### **Variance by GLs in the RIGs**

The table below provides a breakdown of incurred and forecast costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Non-payroll costs are explained in a subsequent section. Payroll and Recruitment are justified within the next section.

**Table 1: Variance from the RIGs by GL**

	(£m)			Ry19/20	Ry20/21	Ry21/22
<b>Baseline</b>	<b>Total Corporate Management</b>			<b>8.231</b>	<b>8.105</b>	<b>2.817</b>
<b>Incurred</b>	<b>Total Corporate Management</b>			<b>19.576</b>	<b>12.729</b>	<b>12.881</b>
<b>Variance</b>	<b>Total Corporate Management</b>			<b>11.345</b>	<b>4.624</b>	<b>10.064</b>
	Payroll costs	PR	£m	2.938	1.290	5.687
	Non-payroll costs	NP	£m	0.538	0.025	0.134
	Recruitment	RC	£m	0.092	0.056	(0.072)
	Accommodation	AC	£m	5.314	1.782	3.451
	External services	ES	£m	2.186	1.366	0.714
	Internal services	IS	£m	0.129	0.026	0.071
	IT Services	IT	£m	-	-	-
	Office Sundry	OS	£m	-	-	-

### Payroll costs variance

The overall Payroll costs variance is £2.938million. This is a combination of two sources of variance:

- **[REDACTED]**
- **Corporate Management Sub-Teams' Variance, £0.439million** – This is the variance related directly to the staff and contractor costs of resources working within the Corporate Management cost centre and its sub-teams. It is treated as a resource variance and is explained here in the Resource section.

### Variance by Sub-Team

In Ry19/20, only the Strategic Customer Engagement team and the Strategy and Product Management team showed material variances that exceed the threshold of £0.15m. In the forecast, in addition to these two teams, the Regulatory Design and Delivery team and the Regulatory Strategy and Performance Management team show a material variance during Ry20/21 and Ry21/22. Whilst the Business Improvement and Internal Audit, Corporate Affairs, Economic Regulation, Executive and Board, Regulatory Affairs Office and Regulatory Governance teams show a material variance during Ry21/22 only. The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 2: Variance by sub-team**

<b>Corporate Management Payroll Variance</b>	<b>Ry19/20</b>	<b>Ry20/21</b>	<b>Ry21/22</b>
<b>Total Payroll Variance</b>	<b>2.938</b>	<b>1.290</b>	<b>5.687</b>
<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>
<b>Corporate Management Sub-Teams' Variance</b>	<b>0.439</b>	<b>1.290</b>	<b>5.687</b>
Business Improvement and Internal Audit	(0.008)	0.023	0.836
Corporate Affairs	0.056	0.119	1.130
Economic Regulation	(0.059)	0.013	0.379
Executive and Board	(0.073)	0.009	0.474
Legal	-	-	(0.062)
Price Control/Economic Regulation	-	-	(0.058)
Regulatory Affairs Office	0.011	0.001	0.202
Regulatory Design and Delivery	0.056	0.179	0.561
Regulatory Governance	(0.142)	0.039	0.486
Regulatory Strategy and Performance Management	0.118	0.258	0.410
Strategic Customer Engagement	0.220	0.467	0.400
Strategy and Product Management	0.260	0.183	0.929

## 2.3 Drivers for Variance – Resource

As set out in the table above, ten sub-teams are showing material variances either in incurred costs in RY19/20 or forecast costs in subsequent reporting years. The reasons for these resource variances are set out below.

### 2.3.1 Corporate Affairs

The Corporate Affairs team is responsible for the overall delivery of internal and external communications for DCC ensuring that there is a strong, positive reputation for DCC that is founded on substance. The team consists of five sub-teams that are each responsible for various aspects of delivering this overarching objective. The teams are responsible for the following:

- External communications - manages and develops the external reputation of the DCC through narrative generation, media relations and stakeholder engagement, including analyst relations.
- Internal Communications - supports organisational understanding and delivery through colleague communications. Manages key channels, including intranet, email bulletins and colleague events.
- Employee engagement - supports the direction and culture of the organisation through definition of purpose and delivery of employer brand.
- Digital communications - manages and develops the organisation's digital channels and content, including social media.
- Customer communications - oversees communications with customers on elective services and plans for future communications and marketing to potential new customers (in line with DCC licence) once approved by existing customer community.

#### Activities driving change in resource in RY21/22

- Two additional roles were recruited into the team in RY19/20, which, as ongoing roles, drive a material variance in RY21/22. The most significant variance arises from the creation of a new Head of Customer Communications post, which will continue for the next two years in line with the team structure and headcount. This together with the forecasting for 2021/22, which has not previously been undertaken, create a material variance in 2021/22. Beyond this ongoing role, no change in resource is planned in 2021/22, although the role of Programme Communications Manager will come to an end.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 2.3.2 Regulatory Design and Delivery

The Regulatory Design and Delivery team sits within the Regulatory Affairs function. The team is responsible for:

- Ensuring the delivery of regulatory requirements for customers and business change is met.
- Deploying regulatory expertise and tools whilst ensuring compliance with governance arrangements.
- Providing expert advice and guidance on the existing regulatory framework (licence and codes).
- Leading on DCC's engagement with stakeholders on (non-economic) regulatory matters, including compliance and change management.
- Influencing, and facilitating DCC colleagues in their influencing, of regulatory stakeholders to meet DCC's strategic and policy aims.
- Providing regulatory products/proposals for change on time and to high standard.
- Working with internal stakeholders through business partnering, and external stakeholders through collaboration, to navigate or adapt the regulatory framework to meet new requirements.
- Delivering regulatory governance documentation for DCC programmes and releases on time and to quality standards.

### Activities driving change in resource in RY20/21 and RY21/22

There is no variance in RY19/20. However, the forecast for RY20/21 and RY21/22 show a material variance, which are largely due to resource requirements needed to support ECoS implementation, Network Evolution and Switching programmes. In addition, forecasting for RY21/22 has not been previously undertaken and therefore creates a material variance. The variances are summarised below.

- ECoS implementation – Licence Condition (13A) requires DCC to develop and execute a plan for the delivery of ECoS to replace TCoS. Whilst this was anticipated in 2019/2020, we did not have certainty until the Licence changes were introduced and the ECoS plan accepted. One Manager level FTE has been appointed to manage this activity which comprises 75% of their time.
- Supporting DCC engagement with BEIS on DCC's Network Evolution Programme. The requirement for DCC to provide rigorous business case analysis has subsequently been codified in changes to LC16 which give Government a veto on mandatory business case approval. The additional requirement to provide detailed business cases to BEIS to their preferred timetable has required the temporary recruitment of two contractors to develop material for stakeholder engagement and coordinate the delivery of the outline business case.
- Supporting DCC in developing permitted business and value-added services – as required under the DCC General Objectives. One senior manager is being appointed to provide 50% of their time to oversee this activity, with the rest supporting DCC's regulatory preparation for new mandated activity we expect to be directed to undertake (e.g. support for Electric Vehicles and managed half-hourly settlement).

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 2.3.3 Regulatory Strategy and Performance Management

The Regulatory Strategy and Performance Management team is a newly formed team that sits within the Regulatory Affairs function. The team is responsible for:

- Designing and implementing a new regulatory framework which is supportive of DCC's long-term regulatory obligations and provides appropriate incentives for our enduring activities. In addition, it will also consider the appropriate regulatory structures required to support our work on innovation and reuse of the network so our customers can benefit from savings.
- Taking a medium-term view of developments within DCC, its customer base and the external environment to better plan for any changes that might be required in regulation.
- Understanding the wider policy landscape as it impacts upon DCC.
- To provide a central function participating in corporate processes on behalf of the wider Regulatory Affairs team, such as business planning, risk management, corporate reporting etc.

The variances result from this being a new team which was not included in past forecasts.

At the time of the 2018/19 Price Control submission, only the Head of team role was in place with the remainder of the team being appointed in the summer/autumn of 2019. This has resulted in a non-material variance in 2019/20, but a material variance in the two following years reflecting, in each case, a full year's resource costs.

### Activities driving change in resource in RY20/21 and RY21/22

Resources were recruited into the team in 2019/20, given the team's responsibilities described above. No change in resource is planned in 2020/21 or 2021/22, other than maternity cover which will be required for one team member in 2020/21.

Given the remit of the team to develop positions for DCC in respect of relevant policy areas, consideration was given to the appointment of a Policy Lead role – this was entered provisionally into the financial forecasts. However, after discussion as part of business planning, it was felt that there

was not the justification for recruiting an additional FTE and that this responsibility could be shared amongst existing team members. Consequently, no actual costs have arisen, and no future forecast costs have been included in the Regulatory Affairs business plan for 2020/21 and 2021/22.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 2.3.4 Strategic Customer Engagement

The Strategic Customer Engagement team is a newly formed team that sits within the Regulatory Affairs function. The team is responsible for delivering the Customer Engagement strategy to Inform, Shape or Survey as a vehicle for involving DCC customers in the development of DCC plans and activities. This approach underpins DCC's commitment to provide more transparency on costs, business cases and their subsequent progress. The team is responsible for:

- Developing the detail of the new customer engagement approach with customers.
- Preparing and publishing engagement plans for all new areas of activity.
- Publishing summary business cases for all new areas of activity.
- Ensuring that customer views are considered at every stage of DCC's internal governance process.
- Development of a new online customer portal.
- Customer mapping and facilitation of bilateral engagement with customers at Executive level.

#### Activities driving change in resource in RY19/20, RY20/21 and RY21/22

The Strategic Customer Engagement team was designed in 2019 after the consultation soliciting industry views on the effectiveness of DCC customer engagement and discussions with Ofgem. Consequently, these resources were not in our forecast. Staff were primarily recruited throughout the remainder of 2019 with one team member joining in April 2020.

There are still two more vacancies to fill in 2020, one of which is a permanent position, the other a Fixed Term Contract. In addition, it is anticipated that two existing contractor roles will end in June 2020 and October 2020 respectively.

The Strategic Customer Engagement team is focussed on implementing the DCC Customer Engagement strategy to deliver more transparency to customers regarding DCC plans and spending. This is underpinned by the Inform, Shape or Survey approach where the benefits of plans are shared with customers during development.

The team have redesigned the Quarterly Finance Forum where DCC discusses DCC charges for the forthcoming quarter. This forum now includes more detail on the cost drivers such as inflight and future programmes, supported by specific business case webinars that enable customers to engage directly with the programme delivery teams, discuss progress and challenge assumptions. This approach was used as the model for the Business and Development Plan 2020 to 2025, with positive customer feedback.

The team is also digitising customer engagement by delivering a Customer Engagement Portal making it easier for customers to access DCC information, register for events, update contacts and engage in DCC consultations. The first version was delivered in March 2020 to an initial cohort of 20 customers. Further customers will be onboarded through the summer of 2020 and engagement with customers will help define any further development required.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 2.3.5 Strategy and Product Management

The Strategy and Product Management team consists of three sub-teams. The teams' responsibilities are as follows:

- **Strategy and Business Planning**
  - Develop and iterate DCC's business strategy
  - Manage the translation of the strategy into a coherent business plan to inform the budgeting process
  - Ensure the business is making decisions in line with the strategy
  - Monitor and measure execution against the business strategy and plan.
- **Business Development**
  - Identification and early stage shaping (prior to Gate 0) of new business opportunities, prior to handing over to Investigation team
  - Capture ideas and requirements both direct from the market, (our existing and prospective customers) and by leveraging partnerships with other innovation networks and partners
  - Close working with product management to move new opportunities into the product development process.
- **Product Management**
  - Development of new value propositions based on existing capabilities: such as propositions for Electric Vehicles, supporting vulnerable customers, experimentation and testing.
  - New product development, leading initiatives from proposal to specification and development planning. This requires working closely with colleagues within DCC and extensive engagement with customers and stakeholders.

#### Activities driving change in resource in RY19/20

The Strategy and Product Management team was within budget; however, the FTE allocation was different to plan for several reasons.

- We took the decision to enhance our leadership capability through the appointment of a new Strategy Director to lead the Strategy Function. The Head of Business Strategy role was therefore repurposed as the Proposition Development Manager on appointment of the Strategy Director.
- An Innovation and Growth Director (Contractor) was used to develop the operating model required to deliver the Innovation and Growth Strategy.
- Due to long-term sickness, two contractors were required to cover sickness absences for two FTE.
- A short-term resource was employed to develop DCC's Data Services Strategy.
- A Product Development Executive to provide support to the newly recruited team.

#### Activities driving change in resource in RY20/21

The resource requirements for RY20/21 will increase due to the creation of the new roles of Strategy Director, Proposition Development Manager and Product Development Executive, as detailed above, and the continuation of the temporary Innovation and Growth Director role for part of the year. In addition, we have made provision to enhance our specialist capability through the creation of two roles in RY20/21 (Low Carbon Officer and a Strategy Manager).

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.



## **2.3.6 Business Improvement and Internal Audit**

### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team is identical to the forecast in RY20/21, as we expect to continue to require this resource, including the Internal Audit Manager, Continuous Improvement Managers, Risk and Compliance Officer, Head of Internal Audit and Controls, Business Assurance Manager, Business Compliance Manager, and Chief Risk and Business Improvement Officer, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## **2.3.7 Economic Regulation**

### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team remains relatively flat compared to the forecast in RY20/21, as we expect to continue to require this resource, including Economic Regulation Analyst, Economic Regulation Incentives Manager, Economic Regulation PC Improvement Manager, Head of Economic Regulation and the Economic Regulation Price Control Manager, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## **2.3.8 Executive and Board**

### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team decreases relative to RY20/21, but we expect to continue to require much of this resource, including; the Managing Director, Non-exec Directors, Independent Directors, PAs and Business Managers on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## **2.3.9 Regulatory Affairs Office**

### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team is identical to the forecast for RY20/21, as we expect to continue to require much of this resource, including the Chief Regulatory Officer and PA, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## **2.3.10 Regulatory Governance**

### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team decreases relative to RY20/21, but we expect to continue to require much of this resource, including; the Head of Regulatory Governance, Regulatory Governance Manager, Regulatory Governance Manager, Regulatory Governance Manager, Regulation Analyst, Head of Bilateral Customer Engagement and Regulatory Governance Executive on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 2.4 Drivers for Variance – Non-Resource

### 2.4.1 Summary

In the past year there have been several procurements in the Corporate Management team, some of which have a material variance. Notably, there have been requirements for external consultancy resource to support the annual price control submission and to develop the Customer Engagement team and its early deliverables.

Additionally, there have been renovation works across DCC sites, including the development of the Test Lab facilities for our customers in Brabazon House, which were detailed in the price control submission for RY18/19. These costs show as a variance as there was zero funding set out in the baseline for RY19/20 and RY20/21 in last year's submission, despite them being a continuation of previously signed contracts.

The procurements with material variations are highlighted in Table 3 below and explained further in this section.

**Table 3: Incurred costs and material variances for Accommodation and External Services in Corporate Management**

	Incurred (£m)	RY 19/20	RY 20/21	RY 21/22	
	Total Incurred Accommodation	<b>7.581</b>	<b>4.049</b>	<b>5.036</b>	
	Total Incurred External Services	<b>2.218</b>	<b>1.397</b>	<b>0.727</b>	
	Variance (£m)	RY 19/20	RY 20/21	RY 21/22	
	Total Variance Accommodation	<b>5.314</b>	<b>1.782</b>	<b>3.451</b>	
	Total Variance External Services	<b>2.186</b>	<b>1.366</b>	<b>0.714</b>	
GL	Variance (£m)	RY 19/20	RY 20/21	RY 21/22	Procurement Type
AC	Brabazon - Fit Out	<b>3.218</b>	<b>0.989</b>	<b>0.868</b>	[REDACTED]
AC	Preston Brook	<b>0.210</b>	-	-0.342	[REDACTED]
AC	Ruddington	<b>1.014</b>	<b>0.600</b>	<b>0.608</b>	[REDACTED]
ES	Black Swan Crisis Management Scenario	<b>0.185</b>	-	-	[REDACTED]
ES	Customer engagement portal	<b>0.168</b>	-	-	[REDACTED]
ES	Price Control improvement/support	<b>0.389</b>	-	-	[REDACTED]
ES	Stakeholder engagement	<b>0.339</b>	<b>1.347</b>	<b>0.677</b>	[REDACTED]

## 2.5 Accommodation costs

There have been several items of material variance within the Accommodation Costs RIGS GL Code. The vast majority of the spend is associated with the refurbishment and expansion of Brabazon House, as we discussed last year. We indicated last year there would be significant additional costs in RY19/20, but we were unable to provide a forecast because the costs did not meet the certainty threshold.

We provide justification for other material items below.

### 2.5.1 Brabazon – Fit Out

#### Driver for the Procurement

As explained in the RY18/19 price control submission, DCC agreed a plan with its Board and customers to build the following five key capabilities at a new North West location:

- Consolidated industry test facilities, with flexibility to scale capacity to support: customer on-boarding testing; critical programme testing, in-life testing, new feature development testing and fault triage testing.



- A 24/7 and 365 days a year Technical Operations Centre (TOC) with an integrated Security Operations Centre (SOC) with the ability to monitor the depth and width of the smart metering eco system thereby enabling proactive intervention and ensuring continuous operations. This facility operates under very strict security rules which is part of DCC's strategic security approach: Secure by design, Secure by assurance, Secure by proactive monitoring/management.
- A 24/7 and 365 days a year service desk working in tandem with our Ruddington site to provide business continuity.
- A co-creation and innovation hub to meet customer demand for elective services and our licence obligation to develop value added services.
- Co-location working and meeting facilities to meet industry on-demand requests for all relevant parties to be present in one location, including meter manufacturers, communications hub manufacturers, DCC and energy suppliers for activities such as technical triage.

All capabilities were built to a very high security standard in accordance with DCC's Licence Conditions and Security Strategy and delivered under very tight timescales to meet, firstly, the significant scale of SMETS2 meter roll out and SMETS1 adoption and enrolment, whilst also delivering the significant costs savings presented to customers.

Engagement with industry was largely via the TDEG and TAG. This included:

- Requirements for test lab use – including future projected use were discussed.
- Test lab construction updates were provided.
- Migration activities (away from the CSP test labs) were discussed at monthly TDEG meetings and a specific migration workshop was convened.

Energy Suppliers were invited to participate in review of test lab designs as part of the contract award process. Also, suppliers were invited to support assurance activities: British Gas and SSE have been involved in SMETS1 dry run activities including SMETS1 FOC Technical Readiness and Eligibility Testing.

In last year's submission we provided a significant amount of detail on the Test Labs operational requirements and our approach to procurement, including a detailed options analysis, assessment of the costs and benefits, and provision of information on due diligence. To avoid repetition, we do not include this information in detail this year, but we would be happy to provide the information again should Ofgem require.

We set out last year that the costs associated with the Brabazon House fit out would largely fall in RY18/19 and RY19/20, but we did not include a forecast of the costs for RY19/20 because of the high threshold applied to have such forecasts included in the charging statement. These costs are largely generated from the fit-out of the facility to create a safe and secure Test lab and facilitate the TOC and SOC, as the rents are nil cost for the first two years and the furniture was provided. There will be future costs associated with the operation of this facility, however the primary non-resource, foreseeable material cost will be the first rent payment in RY2020/21.

## 2.5.2 Preston Brook

As we set out in last year's submission, the creation of the new test facility, consolidation of business and testing activities and closure of the Preston Brook office was expected to reduce operational costs and generate cost savings of more than £68m over ten years. It was on this basis that the DCC Board approved the business case. In RY18/19, we updated this number to show comparable benefits to be well over £90m over ten years.

Preston Brook had a notice period of 9 and 6 months for the two areas DCC were contracted to. DCC agreed not to give notice until we were fully transitioned into Brabazon House to ensure continuity of service to our customers. We negotiated that we would leave both spaces on 31 December 2019 and that a 6-month notice period for both areas would be acceptable – negotiating a 3-month reduction for one area. The ITES agreements for the IT provision at Preston Brook had to remain until January

2020 as the BIAB (branch in a box) for Brabazon House was supported by this server. This has now been fully decommissioned.

### 2.5.3 Ruddington

#### Driver for the Procurement

Since the company was formed in 2013 with just four employees, we have grown to more than 500 employees over three sites – in London, in Ruddington and in Brabazon House (Manchester). These are agreed as the strategic locations for DCC.

In our Ruddington office, we occupy two separate wings on the ground floor of the building, separated by a refectory open to other users of the site. This was causing segregation issues and DCC was unable to fulfil the need to be highly secure. The opportunity arose to take on the first floor of the building, a greater floorspace at a lower cost with the floor dedicated to DCC only. This would allow us to control full access to this space and hence make it suitable for more sensitive usage. The procurement was to refurbish Ruddington to make it consistent with our accommodation and security strategy.

In seeking to refurbish Ruddington, we used the following the key principles in our procurement approach:

- Buildings need to be highly secure, professional, and fit for purpose.
- We should reduce costs wherever possible.
- There must be high utilisation rates in all sites, but we would also encourage flexible working for staff to retain access to the best and brightest staff.
- “Operations is King”. There cannot be disruption to Operations during critical SMETS2 rollout phase to end 2020.
- Location should take account of access to resources and expertise in the local geography suitable for a technology company of DCC’s size.
- Business continuity and disaster recovery resilience planning needs to be incorporated.
- Critical requirements cannot be shared, e.g. communications links.
- Use Capita buildings where appropriate to do so, in order to minimise costs and maximise efficiency.

#### Securing Value for Money

The table below provides a brief summary of the procurement approach and savings realised through DCC.

**Table 4: Procurement Evaluation Breakdown**

Procurement – Ruddington		
Number of Bids received	5	
Number of Bids shortlisted	5	
Strengths of Selected Bidder	[REDACTED] demonstrated they are the most competitive commercially and submitted the most compliant tender. Our advisers, [REDACTED] <sup>1</sup> , assessed [REDACTED] as the most capable, economic and efficient option to deliver the project.	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

<sup>1</sup> The [REDACTED] contract was not material and is not included in the cost of this procurement.

As the fitout was a construction project, DCC contracted with the cost consultants [REDACTED], previously used on the Brabazon House fitout last year. This was to ensure that experts in the field could challenge and drive down the costs.

The competitive tender was run by [REDACTED] for CAT B fit out works and 5 contractors invited to tender. The tender analysis was undertaken by [REDACTED] who levelled some of the items by introducing a Provisional Sums and applied to all contractor's costs. This allowed for a levelling and adjusted contract value submissions to be provided. This allowed for the submissions to incorporate fair and reasonable provisional sums. We have not included the costs of [REDACTED] in the above table as it was a separate, non-material procurement. The costs of [REDACTED] account for the difference in RY19/20 between the entry of [REDACTED] in table 3 and the entry of [REDACTED] for the BAFO price in table 4.

## 2.6 External Services

There were four External Services procurements in RY19/20 that resulted in material variances. One of them, the Price Control Improvement/Support contract will be a regular requirement every year until the end of the Licence term, unless the form of the submission changes. While we envisage that costs will decrease marginally over time as we become more efficient, the growth and complexity of DCC's activities work against this.

While the Price Control Improvement/Support procurement will appear as a variance this year, it appeared in our 19/20 Business Plan and will continue to do so. It does not however appear in our forecasts because it does not meet the extremely high threshold of the certainty criteria – which is largely that a contract must be signed for it to be included. We are also intending to spend a sum of money that would be above the £150k threshold on developing a Price Control Automation Tool (PCAT), which we have previously spoken to Ofgem about, but again this is not included in our forecasts because it does not meet the certainty threshold (although it is currently going through a procurement process).

### 2.6.1 Black Swan Crisis Management Scenario

#### Driver for the Procurement

The DCC has a critical role in supporting and enabling the smart meter roll-out. It must therefore operate at the highest level of readiness and be able to respond effectively in the event of a security or service incident, or another external event. This readiness includes having the appropriate crisis management capability. The primary driver for this procurement was for the DCC to obtain an independent test and assurance of its crisis management capability and readiness, including a 'black swan' crisis event simulation.

Three individual desktop reviews were conducted with the Cyberthreat Security Management, Major Incident Management and Crisis Communications Management teams, examining their crisis runbooks and plans versus good industry practice. It culminated in a complex crisis scenario event played out in real time which placed the teams under significant duress to manage the crisis event.

The objectives of the crisis event were to:

- Rehearse Smart DCC's crisis response to a high impact cyber security event resulting in severe impacts on business operations.
- Enhance participants' understanding of their crisis role and the challenges of responding to a high-pressure event.
- Rehearse mobilisation, escalation and coordination processes.
- Explore the interdependencies between the different teams mobilised in a crisis.
- Practice maintaining situational awareness and decision making in a multi-dimensional scenario.
- Rehearse initial front desk protocols as outlined in Smart DCC Dawn Raid Response Plan.

The outcome of the engagement was an assessment of DCC's crisis management capability, identifying areas for development. Several actions arose from the four reports produced during the engagement, and those actions are being tracked through to completion.

### Securing Value for Money

DCC carried out a competitive procurement using the DCC procurement process. Five potential suppliers were invited to respond; [REDACTED]

Following the RFP and submission of proposals, [REDACTED] was awarded the contract.

These services were procured via the Consultancy Framework which has pre-negotiated rates that the suppliers are not allowed to exceed. In addition, as part of the successful bidder's commercial submission, DCC negotiated a £15,000 discount. This brought the costs down from [REDACTED].

**Table 5: Procurement Evaluation Breakdown**

Procurement – Black Swan Crisis Management Scenario		
Number of Bids received	5 (5 were invited)	
Number of Bids shortlisted	5	
Strengths of Selected Bidder	<ul style="list-style-type: none"> <li>The [REDACTED] RFP response showed a clear structured methodology with significant depth and credible artefacts and back-up to substantiate their statements.</li> <li>They delivered a quality project plan with key deliverables identified and activities required to execute the work within the timescales.</li> <li>The [REDACTED] team proposed had significant experience across both the operational and reputational aspects of the requirement.</li> </ul> <p>The [REDACTED] team was also of equal level of seniority for both areas (operational and reputational), with significant resources within each team.</p>	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

## 2.6.2 Customer Engagement Portal

### Driver for the Procurement

To better meet the requirements of our customers and Ofgem, in December 2018, DCC issued a consultation entitled 'Improving Smart DCC Engagement with Customers and Stakeholders'. The consultation set out to understand customer and stakeholder views on DCC engagement through different channels and forums, including how technology could facilitate effective information-sharing and engagement. Feedback was sought on a proposal to implement a new online customer portal, which would be part of a new digital content strategy that aims to deliver transparency and meaningful engagement to build a connected online audience.

The following benefits for the procurement of an online customer engagement platform are as follows:

- Supporting a more tailored engagement approach, allowing customers to self-select the information they want from DCC, and communicate with DCC on topics of their choice.
- Providing a secure forum where DCC can share information with customers, alerting customers that new information is available and enabling customers to respond.
- Enabling DCC to record and measure participation, interpreting the views and information presented to DCC and aid in identifying areas where engagement has not been effective and where DCC may need to consider modifying the customer engagement approach.

- The previous support via SharePoint was seen by customers as difficult to navigate and DCC's online presence as complex and inconsistent, with agreement an online engagement platform was required.

DCC worked with customers to understand their requirements and then considered alternatives to the chosen solution which included delivering the requirements via a standalone application, but this was discounted on the basis that it would fail to deliver the improvements in wider customer experience and information management that can be gained from an integrated DCC customer platform. DCC also considered utilising an existing website but discounted this on the basis that the existing DCC corporate website does not provide the necessary security or architecture.

DCC required an online customer engagement platform and selected an integrated Customer Relationship Management (CRM) platform/interface to improve usability/customer experience and establish one central 'database' of customer information, minimising the likelihood of fragmented and uncoordinated communications from DCC.

### **Securing Value for Money**

These services were sourced from [REDACTED] via a [REDACTED] Procurement. In keeping with our licence obligations, we assessed this as the most appropriate sourcing strategy to achieve value for money given that similar services (Configuration/Coding of [REDACTED] for the Order Management System (DCCT0151)) had recently (within six months) been competitively procured and [REDACTED] offered best value for money, scoring highest from both a quality and commercial perspective. The rationale for this was documented in NCP0012 and approved by [REDACTED].

The project sought to push additional content, such as customer engagement documentation, through the [REDACTED] portal and then, as is the case with OMS, deposit the output of this engagement activity into the core Customer Relationship Management database (again, already established in the OMS project). This required modifications to the 'front-end' of [REDACTED] and purchase of additional licences. These licences will be deployed to staff supporting the Customer Engagement activities and their profiles will reflect this when they log on to the system.

DCC did not run an additional procurement because we assessed that leveraging our commercial relationship with [REDACTED] to negotiate a good deal would be more economic and efficient. There were several practical reasons that made this the most appropriate decision, including avoiding technical conflict from having multiple service integrators working in the same space and executing against the same infrastructure. We also wanted to avoid inconsistency in our users' experience that would have occurred from having a different look and feel and workflow development with multiple service integrators involved. Productivity and expedience were also factors, as [REDACTED] were familiar with our organisational architecture and business processes so they could easily assimilate additional requirements into their model. There would be a duplication of effort around this exploratory stage with any additional supplier, which has a cost and time implication.

## **2.6.3 Price Control Improvement/Support**

### **Driver for the Procurement**

Every year, DCC is required to produce a detailed submission to Ofgem in accordance with our Licence. This piece of work is extremely challenging and is largely concentrated in the period April to July every year. The primary window of work is condensed into May and June due to the need to complete year-end financial processes and the need for a period of assurance of the submission. This pinch point is further exacerbated by this activity clashing with the external audit of DCC's accounts.

Because of the unique demands of this work, which is typically run as a three-month project with dedicated project management requirements, it does not lend itself to being performed by permanent staff alone. As we have done in prior years - and as Ofgem has recognised each year we have deployed this approach - it is more efficient for this work to be performed by a team of permanent staff with consultant support. Typically, we have no enduring requirement to retain the consultancy resources used as the submission work between April and July is by far the largest part of the annual

cycle. We therefore assessed that this approach of recruiting temporary resource was the most economic and efficient option available to us.

Last year we did not include a forecast of the non-resource cost of this support to the annual price control process because it does not meet the forecast cost certainty criteria, although we consider that it is a necessary requirement every year to avoid inefficient recruitment of permanent staff. The cost of the core contract, following discount was [REDACTED]. Therefore, the actual variance is the difference between the relevant item in table 3 above [REDACTED] and [REDACTED] not the full amount.

Going forward, we will continue to procure support for the price control on a competitive basis, but our requirements are likely to reduce over time if our Price Control Automation Tool is successful at reducing the manual work required to generate the price control submission. We estimate that we may save around £25,000 per year from a combination of reduced reliance on consultancy and internal staff, as per section 1.7 below. This is against the context of the size and complexity of DCC's mandatory business increasing over time, which will place greater pressure on the costs to deliver the price control submission.

### Securing Value for Money

As with all previous years, we competitively tendered for this work using DCC's standard procurement processes. This included:

- Drafting a detailed Request for Quote
- Interviewing potential suppliers
- Scoring their bids on quality and commercial grounds separately using an evaluation panel with experts across DCC
- Requesting a Best and Final Offer to secure the best discount possible
- Writing a contract award recommendation report and proceeding to contract award. Contract award is approved by [REDACTED]

The table below provides a brief summary of the procurement approach and savings realised.

**Table 6: Procurement Evaluation Breakdown**

Procurement – Price Control Improvement/Support		
Number of Bids received	2 (6 were invited)	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	<ul style="list-style-type: none"> <li>• Depth of understanding of the requirement was strong</li> <li>• Prior experience meant the consultants had a clear plan for managing the work and delivering efficiently</li> <li>• Breadth of experience of the consultants was strong, having worked on similar complex projects</li> <li>• Strong project manager was part of the contract</li> <li>• Discount significant, and inflation had not been applied to the framework rate since 2015 (price on the new framework would have been [REDACTED], but we are only documenting the savings from the 2015 rates to the BAFO)</li> </ul>	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

### Extension

Four amendments were made to this contract.

#### Amendment 1 (post-submission activities)

After last year's submission, two permanent members of DCC's price control team left the organisation, resulting in a significant shortfall in resource available to lead the final stages of the



submission and post-submission activities. Because of this we took the decision to invoke the variation terms of the contract with our consultants and utilise them to support delivery of the price control post-submission activities until the end of December 2019. This accounts for most of the variance in costs. The activities required could only have been undertaken by resources involved in the production of the July submission.

The key activities the consultants performed for us between July and December 2019 were:

- Managing questions on our submission and providing further analysis and clarifications to Ofgem
- Preparing the analysis and information for Ofgem's cost visits
- Supporting Ofgem's consultation in October 2019 through the provision of additional information
- Creating materials for a stakeholder engagement session in November 2019
- Leading our consultation response
- Leading additional benchmarking analysis
- Leading lessons learnt exercises and documenting the findings for application in future price controls, including:
  - Reviewing previous price control submissions to identify key areas of focus for removal or enhancement
  - Reviewing overall structure of the price control submission to identify how this could be streamlined to minimise workload and mitigate the risk of different approaches to the same area
- Performing handover to the incoming permanent members of price control staff

#### Amendment 2 (submission activities)

This sub-£10k amendment secured analytical support to map SAP transactions to individual cost centres. The work was necessary as the level of disaggregation needed to provide the narrative Ofgem requires on our costs does not exist within our financial systems. This work involves significant manual effort to review transactions and allocate them to more disaggregated sub-teams than the cost codes against which our systems process transactions. This work involved reviewing several hundred transactions.

#### Amendment 3 (submission activities)

During the early stages of the price control process, it became apparent that we needed additional resource to deliver the extremely complex set of activities for the final stages of reviewing submissions from across the organisation and assembling the submission for Ofgem. The contract was approved internally at the end of May 2019 and came into effect in June 2019.

#### Amendment 4 (submission activities)

An independent audit of our BMA model was performed to ensure we provided accurate information to Ofgem. This was a sub-£10k contract.

#### Rationale

We considered contract amendments were the most economic and efficient option to increase the resource within the project team, and to support post-submission activities, in accordance with our licence requirement because:

- For submission activities:
  - The cost was reasonable as we loaded as much work as possible on the least expensive consultants, and restructured the support to minimise reliance on more expensive staff
  - Running a new procurement would have taken two months, or the majority of the time it takes to complete the price control project

- Running a new procurement would have a moderate DCC resource cost that extending the contract did not
  - It was not practical to bring in another consultancy firm to work with existing consultants due to the need to work on and share confidential information
  - The consultants had proven themselves to be highly adept and efficient at delivering for DCC
  - The consultants maintained their discounted 2015 framework rates during the extension, and did not charge for two days of a senior consultant's time
- For post-submission activities:
    - The Regulatory Affairs team was restructured and knowledgeable permanent resource to assist for a period of more than five months was not available. This work could only be done efficiently by resources with knowledge of the price control process in RY18/19
    - Running a new procurement would have a moderate DCC resource cost that extending the contract did not
    - The consultants had proven themselves to be highly adept and efficient at delivering for DCC
    - Much of the post-submission activities related to providing additional information, analysis and clarifying the July submission. It would not have been possible or economic for another consultant to have joined, got up to speed and become expert in what we had done
    - The consultants maintained their discounted 2015 framework rates during the extension, and did not charge for two days of a director's time

## 2.6.4 Stakeholder Engagement

### Driver for the Procurement

In response to feedback from customers and Ofgem, DCC has been working very hard to improve customer engagement, and in particular on enabling improved transparency on costs and the progress of DCC plans. A strategy of Inform, Shape or Survey has been built underpinned by a number of workstreams as below:

- Improve DCC engagement activities ensuring that customers and stakeholders are kept informed, engaged in development of the plans and insights and views reflected in the plans.
- Deliver a Customer Engagement Portal to enable customers to access information easily, update their contacts lists, participate in surveys and to register for events.
- Update DCC policies and processes to support portal use by customers.
- Involve customers in the development of a specific document known as the Business and Development Plan 2020 to 2025.

This plan was agreed with Ofgem and progress is regularly reported to Ofgem and customers.

We engaged consultants to provide the project management function to drive these workstreams, as dedicated project management resources were not available internally. Given that these consultants were already working on similar activity, DCC amended an in-flight contract to make use of the existing knowledge within the consultants, and this had the benefit of speed of executing the contract and discounted rates. DCC considered recruitment of contract staff and reallocating of existing staff however this was discounted on the grounds of speed of prioritisation of existing work and the time required by a new contractor to build enough knowledge to operate effectively.

The rationale for this approach is explained further below.

### Securing Value for Money

DCC was required to mobilise this workstream from a standing start to meet very tight deadlines. Ofgem indicated that implementation was expected within four to five months of Board approval which was secured in May 2019. Immediate steps were required to:



- Finalise the details of the new engagement strategy.
- Develop a rollout plan, set up a customer engagement team (project/enduring).
- Implement components of the new strategy by helping to develop engagement plans and customer-facing 'business case summaries' and build a customer portal.

As described previously, project management support was required to ensure this project was delivered successfully. Given the challenging timescales and volume of deliverables, and the access to existing resource on contract to DCC, it was not considered viable to undertake a competitive procurement.

To offset the cost of this resource, the project team (which at the time was an FTE of 0.5) leveraged internal DCC resources to drive other elements of the programme to ensure it was delivered well within budget. To minimise costs, the [REDACTED] took on the role of both delivering the programme while also developing the detailed engagement plans and summary business cases. Additionally, internal staff were used to design and develop workshops to engage industry and test the new engagement approach and to develop the business requirements for the new portal while hiring for the Engagement Team roles commenced.

### Extension

A single extension of the contract was sought to the end of December 2019. At this point we were able to re-open the pricing discussion and secured a 9% discount on the framework rate of [REDACTED] per day to a revised rate of [REDACTED] per day.

We considered this option to be the most economic and efficient because:

- The engagement team roles could not be filled immediately, and this increased the risk that there would be significant delays to delivering the programme.
- Undertaking a competitive procurement exercise would have required up to three months to complete resulting in significant delays to the delivery of the programme.
- Further value add would be achieved by retaining and using knowledge of consultants who had gained an insight to the customer portal.
- The negotiated discounted rate enabled the programme to remain within budget.
- The programme remained on task to meet key deliverables in the absence of the team.

## 3 Commercial

### 3.1 Purpose, Scope and Structure

The Commercial team is responsible for the commercial management of our service providers, contractual frameworks and procurement of new service contracts. The team ensures that DCC receives value for money on the services procured and that service provider delivery supports the DCC and wider energy industry needs.

The broad scope of the Commercial team is to:

- Undertake procurements valued over £100k.
- Manage successful contractual relationships with DCC's strategic supply chain (Tier 1 suppliers).
- Provide support and assurance to the business on procuring goods and services valued under £100k or managing Tier 2 and 3 supplier contracts and relationships.
- Meet the needs of Price Control and Spend Analysis to ensure appropriate cost controls in a highly regulated and heavily audited environment.
- Manage the Commercial and Procurement for our large Delivery Programmes (SMETS1 and Switching).
- Support New Product Development with Commercial and Procurement Support.
- Negotiate all contracts to support the major programme teams as well as DCC's normal activities.

Previously governed and operated as a Finance and Commercial function, the Commercial aspects are planned to be separated from Finance to create two distinct functions in 2020.

### Key events and objectives driving activity and cost

The main deliverables worked on over the course of RY19/20 include:

- Placing contracts to enable progress on the faster switching programme.
- Development of IM Trackers (20 dashboards) enabling better and data-based decision-making.
- Development of a procurement tracker to enhance planning and workload and resource management capabilities
- Management of contract disputes allowing better outcomes including reduced costs and greater efficiency.
- Documentation of 32 commercial processes to inform system analysis.
- Transition of all SMETS1 Service Providers into BAU Supplier Relationship Management and Contract Management.
- Deliver cost transparency process to enable specific supplier cost items to be communicated to customers under NDA and show DCC cost reduction activity.
- DSP and Network Evolution Strategy and Procurement.

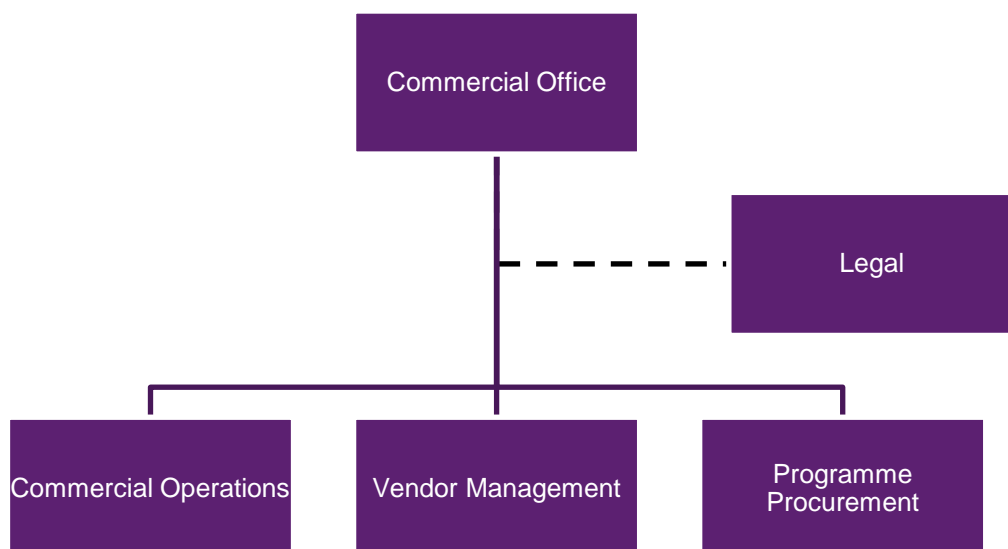
### 3.1.1 Cost Centre Structure

Following a small transformation exercise in July 2019, the current Commercial team has 4 distinct departments:

- Commercial Operations includes Operational Procurement and Commercial Business Partnering.
- Vendor Management includes Supplier Relationship Management and Contract Management.
- Programme Procurement includes all aspects of Commercial capability to procure and migrate into the DCC ecosystem several high value integral services from 2020 - 2024 (referred to as the DCC Network Evolution).
- Legal team which provides internal legal guidance and manages the external legal advice to support the organisation and our major Programme teams.

At the end of RY19/20, the cost centre's organisational structure is as follows:

**Figure 2 – Commercial organisational structure**



An approximate mapping of the changes in the commercial team between RY18/19 and RY19/20 is set out in the table below.

Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Description
Legal	Legal	Supports the organisation with in-house Legal resource; manages relationships with external law firms and supports the business to mitigate risks and comply with laws, with the DCC Licence, the Smart Energy Code and the Retail Energy Code
Commercial and Supply Chain Management	Commercial Operations	Accountable for building and maintaining Programme relationships with DCC major programmes, representing all commercial aspects where required and the negotiation of significant contracts into the DCC ecosystem before ensuring an effective handover to Contract Management and Supplier Relationship Management.
Procurement		Accountable for the procurement and re-procurement of goods and services valued over £100k but below the programme procurement threshold according to the DCC Procurement Strategy and Policy.
		Programme Procurement
Supplier Relationship Management	Vendor Management	Accountable for managing Tier 1 Strategic Supplier Relationships (and where relevant other non-strategic suppliers) that focusses on maintaining value and risk focus, driving supplier performance and resolving conflict.
Contract Management		Accountable for the effective management of contractual mechanisms and commercial levers for DCC Strategic (Tier 1) suppliers, liaison with the wider business to ensure all contract change is managed appropriately and at pace, justification of external spend and the identification of opportunities and cost savings where possible.

## 3.2 Cost Centre Variances

### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecasted costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Payroll and Recruitment are justified within the next section.

**Table 7 - Variance by GL**

			<b>RY19/20</b>	<b>RY20/21</b>	<b>RY21/22</b>
Total Baseline			3.037	2.984	0.683
Total Incurred			3.154	4.241	4.049
Variance			0.116	1.257	3.366
Payroll costs	PR	£m	<b>0.174</b>	<b>1.313</b>	<b>3.385</b>
Non-payroll costs	NP	£m	0.054	0.020	0.081
Recruitment	RC	£m	(0.020)	0.017	-
External services	ES	£m	(0.092)	(0.093)	(0.100)

### Variance by Sub-Team

The table below shows the payroll variance by sub-team. In RY19/20, only the Commercial Operations team showed material variances that exceed the threshold of £0.15m. In the forecast, along with the Commercial Operations team, the Legal, Procurement and Vendor Management teams also show a material variance. The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 8 - Variance by sub-team**

<b>Payroll Variance (£m)</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
<b>Variance</b>	<b>0.174</b>	<b>1.313</b>	<b>3.385</b>
Commercial Operations	<b>0.181</b>	<b>0.435</b>	<b>1.259</b>
Legal	(0.010)	0.028	<b>0.389</b>
People team	(0.005)	(0.031)	-
Procurement	(0.034)	<b>0.226</b>	<b>0.677</b>
Vendor Management	0.042	<b>0.655</b>	<b>1.060</b>

## 3.3 Drivers for Variance – Resource

The primary drivers of resource within the function are the Commercial Operations, Procurement and Vendor Management teams. In RY19/20, additional resource was needed in the Commercial Operations team to meet the expansion of the supply chain and ensure effective management of SMETS1 and Switching contracts and relationships with the suppliers. Other resource increases were secured in order to enhance the functions' fundamental operating capabilities and safeguard smart and efficient working practices in a period of growth. In RY20/21 and RY21/22, the higher resource demand is anticipated due to several factors namely:

- Expansion in the supply chain has led to an increase in the complexity of contracts and requires strategic supplier relationship management. This has necessitated introduction of new skills into the Commercial team and upskilling of the existing staff.
- An increase in the volume of contract change due to changes in the requirements of various programmes including SMETS1 and Switching.
- The creation of a central office management team focused on driving cross-departmental efficiencies, ensuring a professional interface with the rest of DCC, owning and improving processes, planning, risk management and co-ordinating DCC originated activity.
- Delivery of the Network Evolution Programme.
- A significantly lower baseline in RY21/22 as a result of reflecting forecast disallowances.

### 3.3.1 Commercial Operations

The Commercial Operations team is formed of two teams (Commercial Business Partnering and Operational Procurement) accountable for:

- Acting as the primary interface between commercial activity and key programme stakeholders which includes representing all commercial aspects and where required, leading the negotiations on significant contracts and managing safe handover into the DCC ecosystem.
- Procurement activities of goods and services according to the DCC Procurement Strategy and Policy and DCC Licence.

The team has successfully negotiated all remaining fundamental SMETS1 contracts and completed 38 procurement activities for the business including the Centralised Switching Service (CSS) and Test Lab Operator (TLO).

#### Activities driving change in resource in RY19/20

The Commercial Operations team grew in RY19/20 mainly because of the growth in the Commercial Business Partnering Team. In FY18/19, the team was bolstered by specialist procurement resources who were employed to procure the services on behalf of the Switching programme.

Once this work was complete, the negotiation of the 4 contracts making up the Switching programme was the responsibility of the Commercial Business Partners, and we employed to fill this requirement.

Simultaneously, the SMETS1 Programme continued to require increased resources to embed the contracts previously negotiated by DCC and to negotiate new ones. We employed the services of three new Commercial Business Partners to undergo this work, two of them Senior Managers and one Manager.

The third Programme which resulted in the DCC taking on new resources was Network Evolution. In FY19/20 we took on a Senior Commercial Business Partner to begin the work of scoping our Commercial Strategy in relation to this Programme and to begin the work of building our Cost Model that would support the programme.

Finally, we brought into the business a Commercial Manager to improve the quality of our documented policies and procedures, adherence to governance, and responses to the various audits we are subjected to. Her role was also to identify new efficiencies and economies by looking at ways of working and the digitisation of policies and procedures.

#### Activities driving change in resource in RY20/21 and RY21/22

- We are planning to review our tier 1 contracts over the course of RY20/21 to determine whether there is scope for DCC to pursue greater value for money through applying new pricing and incentivisation methodologies. This may be extended beyond tier 1 depending on the outcome of this review.
- DCC continues to recognise the importance of ringfencing of Commercial resources for the Switching Programme which ensures continuity of programme. However, it also leads to limitations in resource re-use across the function.
- More Procurement Managers and Commercial Business Partners are required to negotiate new contracts, to embed the contracts into the business and to provide commercial input into all DCC business cases.
- Network Evolution is a 5-year portfolio of programmes aligned to technical and commercial triggers being and will be the largest driver of additional resources although we will re-use resources where necessary.

There are 4 programmes inherent within Network Evolution as per the below:

Comms Hubs and Networks	2020-2022
DSP Re-procurement	2020-2024
Security and SMKI	2020-2025
Test Automation	2020-2021

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 3.3.2 Legal

The Legal team is responsible for providing legal advice and assistance to all aspects of the DCC's business. As is typical of in-house teams, the scope of requirements is extremely broad, ranging from drafting and negotiation of standard terms and conditions with vendors, to regulatory and corporate governance advice for the DCC Executive Committee and Board.

In order to satisfy and undertake the new projects and programmes of work, the Commercial and Legal team continues to grow as we require new skills and methods of contracting to allow these new services to be undertaken by DCC. The presence of this team will also enable further costs to be negotiated down and cashable savings to be achieved by the team. It is our corporate objective to do so, and it is the Commercial team which is principally engaged in this endeavour. We also have a period of renegotiation of two major contracts with CGI and BT. Both will need further planning during RY2020/21. By the end of RY2020/21 we will be deeply immersed in that process.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 3.3.3 Procurement

The Programme Procurement team is accountable for managing the procurement of goods and services to support our major programme teams (typical values £10m - £500m), including the negotiation of strategically complex contracts and ensuring the effective transition into the BAU Commercial function. The team has been instrumental in the Programme set up, delivery of Test Automation and Systems Integration procurements and assurance activities which will continue into early 2020/21 alongside assisting the business in requirements development. In 2020/21 we will also deliver an Outline Business Case (OBC) according to the HMT Green Book's The Five Case Model<sup>2</sup>.

#### Activities driving change in resource in RY20/21 and RY21/22

The main driver behind the set-up of the Programme and subsequent resource requirements is the Network Evolution Programme strategy which Comms hubs and Networks and DSP as two distinct Programmes with interdependencies that requires careful allocation of resources.

Specific skills are required in 2020/21 to deliver an OBC according to the HMT Green Book Model. It is worth noting also that Commercial resources are to some extent ringfenced by Ofgem to support the Switching Programme which limits the amount of secondments between these Programmes.

<sup>2</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/685903/The\\_Green\\_Book.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf)

We are planning to review our tier 1 contracts over the course of RY20/21 to determine whether there is scope for DCC to pursue greater value for money through applying new pricing and incentivisation methodologies. This may be extended beyond tier 1 depending on the outcome of this review.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 3.3.4 Vendor Management

The Vendor Management team has 2 distinct features as follows:

- Supplier Relationship Management: Accountable for managing Tier 1 strategic supplier relationships (and where relevant other non-strategic suppliers) that focus on maintaining value and risk focus, driving supplier performance and resolving conflict.
- Contract Management: Accountable for the effective management of contractual mechanisms and commercial levers for DCC strategic (Tier 1) suppliers, liaising with the wider business to ensure all contract change is managed appropriately, justification of external spend and the identification of opportunities and cost savings where possible.

Through 2019/20 the portfolio of Tier 1 strategic suppliers has increased to 13 and each supplier has a Supplier Relationship Management (SRM) Dashboard report set up. The team has also developed a new process to ensure the management of poor performing suppliers. The team have documented key processes in order to identify efficiencies and maintain best practices in a fast paced and growing team for 2020/21 and managed a significant increase in contract change volumes compared to the previous year. It has also assisted in identifying process improvements which are expected to be realised through 2020/21.

#### Activities driving change in resource in RY20/21 and RY21/22

Key activities include:

- Network Evolution Programme which is likely to generate a volume of contract change and contract management as yet undetermined.
- Gradually increasing volumes of contract change related to the Switching Programme which are also likely to continue to increase through 2020/21.
- Supplier relationships are becoming more complex and therefore more resource-intensive to maintain effective performance management.
- Ofgem are currently consulting on incentivising good contract management best practices which is likely to drive a need for new skills and/or the upskilling of existing commercial resources.
- Greater volume of SEC Mod change as well as changes to the requirements on DCC as a result of such modifications, including for example SEC Mod 122.
- The vendor management team must continue to demonstrate value for money and the application of the themes and principles of government (Cabinet Office) commercial best practices.
- We are planning to review our tier 1 contracts over the course of RY20/21 to determine whether there is scope for DCC to pursue greater value for money through applying new pricing and incentivisation methodologies. This may be extended beyond tier 1 depending on the outcome of this review.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.



## 3.4 Drivers for Variance – Non-Resource

### 3.4.1 Summary

The Commercial function did not show any material variance in incurred costs for External Services this year. A breakdown of the cost elements is provided in Table 3 below.

**Table 9: Variance for External Services in Commercial Function**

Incurring (£m)	2019-20	2020-21	2021-22
Audit/assurance	-0.079	0.022	0.015
Resource (contractor)	0.014	0.030	-
Innovation and growth	0.002	-	-
Procurement	0.025	-	-
Supplier management	0.107	-	-
Other	0.010	-	-

## 4 Finance

### 4.1 Purpose, Scope and Structure

The purpose of the finance function is to oversee and execute financial activity for DCC. The team is divided into the following key areas:

1. Finance Office.
2. Financial Reporting.
3. Commercial Finance.
4. Finance Transformation and Business Operations.

Also, for regulatory reporting purposes, the People team which is responsible for aspects of Human Resources activity within DCC, is included within the return for the Finance RIGs cost centre.

The responsibilities of each sub-team are set out in the table below.

Current Sub-team RY19/20	Description
<b>Finance Office</b>	The finance office team comprises the Finance and Commercial Director and the team PA. The Finance and Commercial Director is a member of the DCC Executive Committee and DCC Board
<b>Financial Reporting</b>	The Financial Reporting team is responsible for: <ul style="list-style-type: none"> <li>• producing the statutory accounts</li> <li>• producing price control data</li> <li>• managing the annual audit</li> <li>• overseeing month end reporting</li> <li>• overseeing accounts payable and accounts receivable processes</li> <li>• managing the agreed upon procedures</li> <li>• financial reporting to the shareholder</li> <li>• billing (including management of credit cover)</li> </ul>
<b>Commercial finance</b>	The Commercial Finance team is responsible for: <ul style="list-style-type: none"> <li>• producing and managing the budget</li> <li>• finance stakeholder management e.g. quarterly customer finance updates, producing quarterly finance publications</li> <li>• providing business partnering to the organisation</li> <li>• setting DCC charges</li> <li>• managing and implementing cost control processes; and</li> </ul>



Current Sub-team RY19/20	Description
	<ul style="list-style-type: none"> <li>month-end reporting</li> </ul>
<b>Finance Transformation and Business Operations</b>	<p>The team is responsible for:</p> <ul style="list-style-type: none"> <li>Ensuring that the DCC reporting system (BPC) is maintained and modified as per the needs of the business and any regulatory requirements</li> <li>introducing systems to automate finance processes</li> <li>improving systems/processes to improve performance</li> <li>working with the functions to identify and deliver cost savings as per the cost challenge set for the FY</li> <li>estates management including health and safety</li> <li>management of all IT BAU and commercial spend as per the MSA</li> </ul>
<b>People Team</b>	<p>The DCC People Team exists to:</p> <ul style="list-style-type: none"> <li>support the business in the delivery of the DCC mission, strategic priorities and objectives</li> <li>support the development of functional and cross-functional capability in DCC</li> <li>deliver team development sessions</li> <li>support the development of core skills outside of the package included in the overhead</li> <li>manage recruitment and talent acquisition</li> <li>develop and implement new development programmes</li> </ul>

### Key events and objectives driving activity and cost

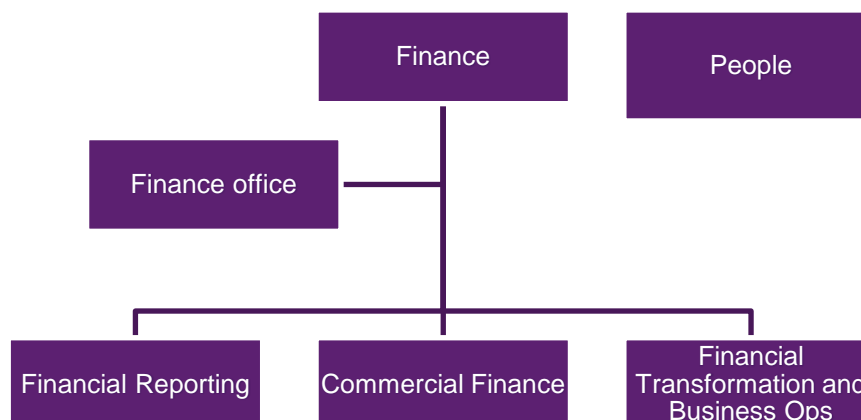
The main activities delivered during RY19/20 include:

- Improvements in accuracy, standardisation and efficiency of management reporting and accounting.
- Financial dashboards to report monthly on key metrics.
- Improvements to support customer/stakeholder engagement.
- An approved charging strategy for new products.
- Increased focus and rigour around business cases.
- Enhanced security across all three DCC sites.
- Service standardisation in managing multiple sites.
- Improving payment times to suppliers, achieving 97% of all suppliers paid within 30 days by March 2020.
- Delivery of £14.4m of cashable savings versus a target of £5m and a stretch target of £10m.
- Agreed implementation of a Master Services Agreement for all IT spend with Capita, which further defines the arm's length arrangement with our shareholder and enables future competitive procurements.
- Negotiation of annual rent for Discovery House, Ruddington resulting in lower costs per square foot.
- Lease negotiation to secure Brabazon House until 2025 at a favourable cost.
- Reduction in [REDACTED] FTE (circa £0.120m saving) by outsourcing support of SharePoint.
- Implementation of a new HR system.
- Supporting functional reorganisations.
- Supporting relocation to Brabazon House.

### 4.1.1 Cost Centre Structure

During RY19/20, the finance cost centre structure was stable and did not change from the previous year. As at the end of RY19/20, the cost centre's organisational structure is as follows:

**Figure 3 – Cost centre organisational structure**



In RY2020/21, we are making changes to the structure of the function. We are remapping some activity from Commercial Finance and Financial Reporting to a new sub-team named 'Regulatory Finance and Pricing'. This new team will be responsible for producing price control data; finance stakeholder management (e.g. quarterly customer finance updates, producing quarterly finance publications); setting DCC charges; and developing the financial and charging strategy for new products. We plan to explain this in more detail in a future submission.

## 4.2 Cost Centre Variances

### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Payroll costs are justified within the next section. Although both non-payroll costs and recruitment costs contain variances, there is no single item within either which is materially variant. External services are documented in section 1.4.

**Table 1: Variance from the RIGs by GL**

			<b>RY19/20</b>	<b>RY20/21</b>	<b>RY21/22</b>
<b>Total Baseline (£m)</b>			<b>3.995</b>	<b>3.638</b>	<b>3.610</b>
<b>Total Incurred (£m)</b>			<b>5.601</b>	<b>5.045</b>	<b>4.618</b>
<b>Total Variance (£m)</b>			<b>1.606</b>	<b>1.406</b>	<b>2.971</b>
Payroll costs	PR	£m	0.591	1.211	2.721
Non-payroll costs	NP	£m	0.297	0.117	0.181
Recruitment	RC	£m	0.300	0.041	-
External services	ES	£m	0.280	0.039	0.291
Internal services	IS	£m	0.015	-	(0.144)
IT Services	IT	£m	0.071	0.023	0.023
Office Sundry (ES)	OS	£m	0.052	(0.025)	(0.101)

### Variance by Sub-Team

The table below shows the payroll variance by sub-team. Commercial Finance shows a material variance which exceeds the threshold of £0.15m in the forecast for RY20/21 and RY21/22. Finance Office exceeds the threshold for RY21/22. Financial Transformation and Business Ops record material variances for the RY20/21 and RY21/22 forecast. The People team show material variances in RY19/20 and for the forecasted years. The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 2: Variance from the RIGs by sub-team**

<b>Finance Payroll Costs</b>	<b>RY19/20</b>	<b>RY20/21</b>	<b>RY21/22</b>
Variance	0.591	1.211	2.721
Commercial Finance	0.125	0.280	0.572
Finance Office	0.032	0.078	0.162
Finance Transformation and Business Ops	0.102	0.165	0.610
Financial Reporting	0.038	0.097	0.038
People team	0.239	0.592	1.340

## 4.3 Drivers for Variance – Resource

### 4.3.1 Commercial Finance

#### Activities driving change in resource in RY20/21 and RY21/22

The Commercial Finance team will experience a variance of £280,000 for RY20/21 as a result of the addition of three roles: [REDACTED] As the finance function continues to grow and transitions into our optimum operating model, we hired a Head of Finance and Commercial Strategy temporarily to provide support to the existing team. This role drives process improvement transformation projects. As DCC's portfolio of projects and programmes continues to grow, we require an additional Project Finance Business Analyst to devise and implement best practice with regards to finance processes and decision-making. A finance analyst is required to support finance business partners. In RY2016/17, we transitioned to a finance business partnering structure as a way of managing the relationship between the finance teams and the business. This model has turned out to be a success. As the DCC grows in response to the needs of government and our customers, so does the volume and complexity of activity carried out by the Finance Business Partners (FBPs). As we change and grow, we continually review our processes to ensure they are fit for purpose. Where new processes are needed, we need more junior finance analysts to implement them and support the FBPs through preparing insightful analysis to help drive efficiencies as well as improved data assurance.

The variance in RY21/22 reflects the FBP, finance analysts and pricing support roles being required on an enduring basis. The variance appears to be larger as the baseline is much lower in RY21/22 due to forecast disallowances.

### 4.3.2 Finance office

#### Activities driving change in resource in RY21/22

This represents enduring roles previously applied for but disallowed in the RY21/22 forecast. We continue to require a Chief Financial Officer to lead the finance team and the PA to the Head of People role continues to be required on an enduring basis.

### 4.3.3 Finance Transformation and Business Operations

There was no material variance in this sub-team in RY19/20, but future years are forecasting variances above the threshold, for the reasons below.

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#### **Activities driving change in resource in RY20/21 and RY21/22**

As we continue to transform DCC to become more efficient and effective, we have created a function to transform our finance system. Three roles exist within this function and we envisage them being retained to the end of the licence. These are the Head of Financial Transformation, Financial Transformation Manager and Cost Transformation Manager. These roles promote cost savings across DCC, identify opportunities to reduce costs and help to drive improvements across processes and systems in finance.

The addition of a third operational office in the North West of England - Brabazon House - has created the need for additional business operational roles. To remain compliant with health and safety regulations, DCC has hired a full-time Facilities and Health and Safety Manager. This role requires specific skills in commercial negotiation to ensure compliance with Safety, Health and Environment regulations. Brabazon House also requires a lead receptionist and a receptionist. We had previously anticipated recruiting a Facilities Coordinator and Office Manager for Brabazon House in the North West, however, because of Covid19 we do not anticipate these roles being required at this time

A large part of the RY21/22 variance represents enduring roles previously applied for but disallowed in the RY21/22 forecast. We continue to require reception staff, office managers and finance/cost transformation roles.

#### **4.3.4 People Team**

The variance in the cost of the People team reflects the transition of DCC from a start-up organisation to a fully operational business and the demand this creates for mature HR services.

#### **Activities driving change in resource in RY19/20**

The People Team is a young function and during RY19/20 it became apparent that additional resources were required to not only support the growing business but to improve the maturity of the products and services we offered to the business. We have the ambition to be a best in class employer and needed to strengthen our employee brand, onboarding journey, diversity and inclusion activities, our wellbeing programme and both operational support and insights to the business. The Director of People and Organisational Development has a dotted line reporting mechanism into Capita. Over time the role has needed to become more strategic and requires the management of multiple relationships and formal reports within both DCC and Capita. As DCC matured and started to operate as a more sophisticated business rather than a start-up, it has strengthened its governance and internal reporting which created additional pressure on the Director role.

Historically the People Team operated more as an administrative function. However, to meet the needs of DCC going forward we have moved towards being more strategic. This has required the appointment of some key roles to bring in additional expertise and to support the Director. A Head of People Transformation was temporarily appointed to improve the recruitment and onboarding journey and change the recruitment supplier to obtain a modern service to better reflect the type of organisation we are and improve our pool of candidates. This role also undertakes activity to identify and improve areas of inefficiency in the team.

Previously, the Director had responsibility for managing the Organisational Development function and HR operations and sat on the Executive Committee. Additional 'Heads of' for Organisational Development and HR operations roles were appointed to take ownership of each area and provide focus and management capacity. We are now operating a standard HR structure with separate development and operational divisions to the team. This enables DCC to build a stronger development offering and develop clear policies and processes suitable for an organisation of our size. This extra rigour both reduces risk to DCC in the HR space and puts development products and initiatives in place to ensure our future success. During this period an employee relations role was brought in-house to provide a more aligned approach with DCC direction and strategy through a greater understanding of our business, our challenges and impacts of decisions.

We have focussed heavily on developing an Employee Brand to improve the recruitment pipeline and internal experience, as well as ensuring that we are at the forefront of Diversity and Inclusion and Wellbeing initiatives, all helping to drive the longer-term health and performance of DCC. Over the last year, we have achieved Disability Confidence Level 2 (achieved Level 1 last year) and driven our ENPS score to +11, continuing a very positive trajectory where we were a finalist at the Employee Engagement Awards as a great place to work.

During RY19/20 Capita replaced the HR system used by DCC, and to ensure that our systems continued to align, and our data was correct, a Data Analyst was engaged to support the implementation.

#### Activities driving change in resource in RY20/21 and RY21/22

A Business Manager to support the function has been identified and appointed to improve rigour and controls on reporting, insights and data manipulation. The controls will vastly help the maturity of the function and create a step-change in the recording of critical data.

The role of a resourcing manager has been repurposed as a talent acquisition specialist. This is a result of the need to onboard a specialist to help identify candidates for hard to fill roles. The role has additional seniority to ensure that they can effectively manage stakeholders and contracts.

## 4.4 Drivers for Variance – Non-Resource

### 4.4.1 Summary

The Finance function had had several small procurements in the past year. None were material. However, we expect there to be a material variance for CH Charging reconciliation project in RY2021/22. The breakdown is provided below.

**Table 3: Material variance for External Services in Finance**

Totals (£m)	RY2019/20	RY2020/21	RY2021/22
<b>Total Incurred External Services</b>	0.941	0.402	0.377
<b>Total Variance External Services</b>	0.280	0.039	0.291
Variance (£m)	RY2019/20	RY2020/21	RY2021/22
Audit/assurance	0.071	-	0.004
Bank Fees	0.002	-	-
Benchmarking	0.019	0.009	0.009
CH charging reconciliation project	-0.176	0.006	0.278
Charging strategy	0.050	-	-
Legal advice/support	0.142	-	-
Other	-0.071	-	-
People	0.082	0.025	-
People - health, safety and wellbeing	0.023	-	-
People - HR consultancy	0.117	-	-
People- staff benefits	0.022	-	-

### 4.4.2 CH charging reconciliation project

#### Driver for the procurement

The Communications Hubs Charging Reconciliation project was procured to address issues with the reconciliation and validation of charges related to Communications Hubs. Reconciling and validating charges was previously a manual task which was prone to human error because of the complex charging structure and data. We procured a fully automated tool to manage the process end-to-end.

This procurement ensures that an additional four FTE are not required to manage the reconciliation process as volumes increase during mass roll-out. In addition, it ensures that the accuracy of charges levied on DCC Customers is maintained irrespective of the volumes of Communications Hubs that have been delivered, installed and returned during their lifecycle.

The system was implemented in RY19/20 and the contract lasts for three years. The spend and procurement was justified in last year's price control submission.

## **5 Operations Cost Centre**

### **5.1 Purpose, Scope and Structure**

#### **5.1.1 Purpose**

Operations is accountable for supporting the successful smart meter roll-out across Great Britain, while providing a positive experience for our customers, by maintaining and improving DCC's secure data network. Our primary role is to operate the secure national data network which supports the roll-out and operation of 53 million energy smart meters in homes and small businesses across the country.

We provide a single point of contact for all our customers, supporting their onboarding to the service, the incident management of issues through to resolution and the support for smart meter rollout planning. We also provide the governance of the technical design authority for DCC enterprise and total systems, working with industry and service providers to address technical debt and deliver future capabilities and efficiencies.

We ensure that DCC continues to improve its operational stability and performance, while maintaining security and delivering the additional functionality requested by our customers and stakeholders.

Operations aims to do this by following some key principles:

- Never go dark and never fail an order.
- Be right first time.
- Simplify the complex and streamline processes for all our Customers.
- Provide a highly automated, digital self-service experience which will always be secure.
- Drive all initiatives from the Customer perspective.
- Be vigilant, eyes always on with clear visibility of service across the whole system.

#### **5.1.2 Scope**

Operations will provide the assurance functions to ensure our Service Providers deliver the quality of service to DCC's SEC Parties, against contractual KPI's. Operations contains the following functions:

- Design and Test Services.
- Service Design and Transition.
- Technical Operations.
- Service Operations.
- Service Management.
- Strategic Operations.
- Technology Infrastructure.

Operations contributes to the overall DCC Strategy by providing the following services:

- Deliver reliable and repeatable service, at scale.
- Report operational performance to our Customers and Regulatory Parties.
- Supporting our focus on customers by providing real world information on their experiences.
- To deliver quality and consistency in Design and Testing Services.
- Support the prioritisation of activity and development effort for DCC through customer insight, process measurement and Industry engagement.
- Improve the solutions proposed by DCC through early and effective engagement in the design process.



- Protect the margin and reputation of DCC through the relentless focus on service.

### Key events and objectives driving activity and cost

During RY19/20, there was an organisational restructure. The CTO function retained accountability for Strategy and Vision, but execution of technology projects and programmes moved to the Operations and Service Delivery functions.

This restructure was carried out in order to clarify focus within the CTO, Operations and Service Delivery functions. Service Delivery now has the focus and the necessary accountable resource to concentrate on major industry programmes and delivery of change. Operations now has the focus and the necessary accountable resource to concentrate on operation of the core systems, qualified DCC users and in-life product changes on a broadly 0 to 2-year horizon. CTO has been refocused to concentrate on the future technology landscape of the DCC, on a broadly 2 to 15+ year horizon.

As a result of this restructure, the Design & Test Services and Technology Infrastructure sub-teams transferred from Design & Assurance (CTO) into the Operations function. This transfer significantly increased the headcount within the function.

In addition to the incorporation of the new sub-teams, activity and costs were driven by our annual objectives. The main deliverables worked on over the course of RY19/20 included the delivery of the following function objectives:

- Ensure Operations delivers its Services to ensure they meet the incentive regimes.
- Continue to deliver “Shift Left” capabilities to bring service capability closer to the customer.
- To facilitate migrations, we have established a Migration Control Centre (MCC) which manages the forecasting, scheduling and execution of migrations.
- An Early Life Support (ELS) team has also been set up to ensure transition of migrated devices into DCC’s operational management runs smoothly and that services are stable before moving into BAU support.
- To ensure SMETS1 is successfully transitioned into Operations and provide the ongoing operational support and management of SMETS1 meters.
- To implement a 365 24/7 Technical Operations Centre to effectively and proactively manage the DCC eco-system network estate.
- Security Operations Centre (SOC) to provide DCC, and by extension our customers, a better understanding of the end-to-end security of the DCC service. This includes monitoring for issues within the supplier-provided services and horizon scanning for any potential threats – including cyber threats - to DCC or our supply chain.
- Improve net Customer Effort score for specified Customer journeys, reflecting ease of working with DCC.
- Deliver a reliable service to our customers as the rate of installations increase to meet the industry demand.

### 5.1.3 Cost Centre Structure

As mentioned above, there was a significant transfer of resources into Operations from Design & Assurance (CTO) in RY19/20.

DCC is at an important point in its strategic journey; strongly focused on delivering critical programmes such as Switching and SMETS 1, but also on building our future services and products such as the innovation hub, elective services, SEC mods and the Network Evolution programme.

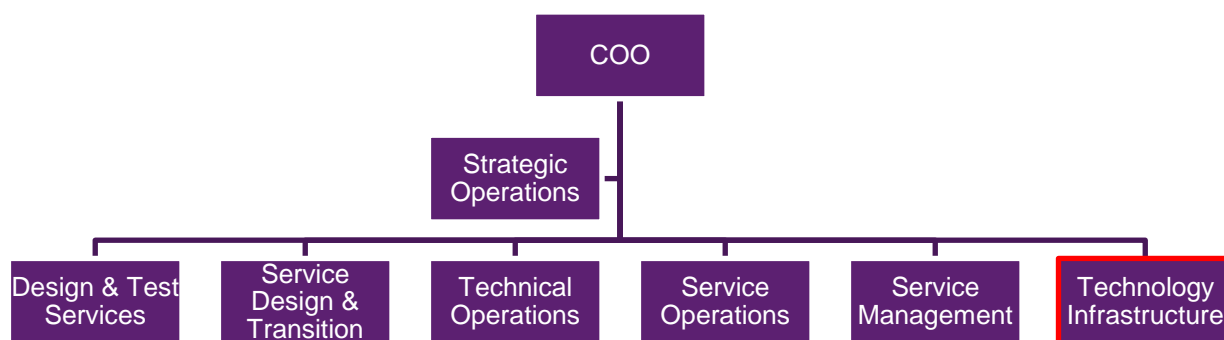
Without dedicated focus, the scale of the programmes we’re working on would reduce capacity for CTO to innovate on the things that are vital to a future-fit platform.

Therefore, DCC made changes to the organisation of the CTO, CDO and COO functions. The changes were about improving the alignment of our teams with the priorities of the smart metering programme and of our customers. The changes are:

- Supporting the day-to-day delivery of our crucial portfolio of programmes.
- Supporting how we serve our customers in CDO and COO.
- Focusing our CTO function on how we achieve next generation capability.

These changes were about ensuring enough headroom and focus, not underlying functional changes to CTO, COO and CDO.

At the end of RY19/20, the cost centre's organisational structure is as shown in the figure below. Please note that Technology Infrastructure was created as a sub-team in Operations in RY19/20, following its transfer from CTO. But over the course of RY19/20, the roles within Technology Infrastructure were absorbed into other sub-teams across Operations and the Technology Infrastructure sub-team was dissolved. Further details are given in the Drivers for Variance section.



**Figure 4 – Cost centre organisational structure**

The table below provides the overview of the major structural changes to the Operations cost centre during RY19/20 and a description of the teams within the structure.

Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Description
COO Office	-	COO office now sits under Strategic Operations
Technical Operations	Technical Operations	<p>TOC/SOC</p> <ul style="list-style-type: none"> <li>The Technical Operations Centre (TOC) function is to ensure that the service availability is managed through the monitoring and management from event managements. The overall function is to maintain optimal network operations across a variety of platforms, mediums and communication channels. This will also include the management of the Security Operations Centre (SOC) capability.</li> </ul> <p>Data Sciences and Analytics Technical Services</p> <ul style="list-style-type: none"> <li>Be the TOC specific service design and transition function to create and maintain TOC processes and procedures</li> </ul>
Service Design & Transition	Service Design & Transition	<p>Service Design and Transition takes Programs into BAU including SMETS1 migration but also includes testing services and utilisation of the Brabazon House testing labs.</p> <ul style="list-style-type: none"> <li>Service Transition (Transition Management, Release Management)</li> </ul>



		<ul style="list-style-type: none"> <li>Service Design &amp; Knowledge (Service Design and Knowledge, eLearning and Training)</li> <li>Migration Control Centre (Forecasting and Planning, MCC Operations, MCC Reporting)</li> <li>Early Life Support (Early Life Support, Prod Proving)</li> </ul>
Service Operations	Service Operations	<p>Service Operations delivers the service to our customers, managing the Incident and Problem team as well as logistics and capacity management.</p> <ul style="list-style-type: none"> <li>Forecasting &amp; Demand</li> <li>Service Centre</li> <li>Incident Management</li> <li>Problem Management</li> <li>Change Management</li> <li>BC/DR</li> <li>Capacity Management</li> <li>Environments Management</li> <li>Release Management</li> </ul>
Service Management	Service Management	<p>Customer Service Management</p> <ul style="list-style-type: none"> <li>In life governance of our customers from an Operations perspective, ensuring customers are engaged. Have the overall ownership for operational relationships with DCC's customers.</li> </ul> <p>Customer Experience</p> <ul style="list-style-type: none"> <li>Accountable for the Operations Customer Satisfaction (CSAT) strategy. Own the in-life management of customer journeys across DCC, end to end service ownership of several assigned services, including KPI measures and improvement.</li> <li>Digitisation of Customer Engagement</li> </ul> <p>Supplier Service Delivery Management</p> <ul style="list-style-type: none"> <li>Governance of our suppliers/partners, ensuring that suppliers continue to meet their service obligations and beyond by considering service outcomes.</li> <li>Responsible for improving the communication, collaboration, co-ordination, negotiation, service improvement alignment, leadership and decision making between our IT Service Providers.</li> </ul>
Operational Performance	Strategic Operations	<p>Operating as the office of the COO, Strategic Operations assures inputs into the COO, ExCo and Board as well as Operations Strategy and Budgets.</p> <ul style="list-style-type: none"> <li>Operations Financial Management <ul style="list-style-type: none"> <li>Management of overall Operations Budget</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>▪ Responsibility for driving cost savings across Operations</li> <li>▪ Responsibility for Operations Price Control submission</li> <li>▪ Risk Management</li> <li>▪ Measurement and reporting</li> <li>▪ Workforce Management</li> <li>▪ Strategy Management</li> </ul>
-	Design & Test Services	<p>Moved to Operations from Design &amp; Assurance as part of September 2019 restructure.</p> <p>Design Services</p> <ul style="list-style-type: none"> <li>▪ Governance of the technical design authority for DCC enterprise and total systems, working with industry and service providers to address technical debt and deliver future capabilities and efficiencies.</li> <li>▪ Drive quality in solution design and design assurance of operating solutions and programme deliverables.</li> <li>▪ Assure service provider and DCC compliance with SEC and contractual requirements.</li> <li>▪ In life management and development of core DCC products - Communications Hubs and the SM WAN connectivity.</li> <li>▪ Subject matter expertise across all DCC technology domains, representing DCC in senior level engagement with industry, government and customers.</li> </ul> <p>Test Services</p> <ul style="list-style-type: none"> <li>▪ Accountable for service delivery to customers across the scope of the User Integration Testing environment, including mandatory and elective customer testing and management of service provider services in testing.</li> <li>▪ Ownership and improvement of testing issue activities in collaboration with customers and service providers.</li> <li>▪ Responsible for operation of the DCC test lab facility - managing demand, new service development and service provider delivery.</li> </ul>
-	Technology Infrastructure	<p>Moved to Operations from Design &amp; Assurance as part of September 2019 restructure.</p> <p>However, this sub-team will no longer exist as a separate function. Instead, the roles will be absorbed into other teams.</p> <p>Technology Infrastructure consisted of Cloud, Demand and Capacity Management and Environments capabilities. All of these capabilities combine to support the DCC network and its ability to deliver the service by ensuring the tools are developed for the DCC to use.</p> <p>Cloud</p>

		<ul style="list-style-type: none"> <li>Cloud design – creating high- and low-level designs for including costs, strategy, best practice, security, monitoring, performance, governance and assurance.</li> <li>DevOps Build – providing and supporting infrastructure for projects using tools such as terraform, AWS config, CloudWatch etc</li> <li>DevOps Run – best endeavours platform support for Rolta and new infrastructure moving from project to BAU.</li> <li>Governance and Assurance – managing and adopting a ‘cloud first’ approach while adhering to necessary rules and regulations</li> </ul> <p>Demand and Capacity Management</p> <ul style="list-style-type: none"> <li>Provides governance and management of the demand pipeline and acts to capture, structure, align and plan business demand and match this demand with the service capacity.</li> <li>Works to ensure consistent capturing and prioritisation of future business and capacity requirements, the regular alignment and prioritisation of demand, and ensures that current and future capacity and performance aspects are provided cost-effectively.</li> <li>Facilitates the annual demand and capacity planning cycle as well as structuring, capturing and estimation of demand on an ongoing basis and mapping demand against an agreed plan and resource base.</li> <li>Ensures project and change activities that impact demand or capacity are aligned and managed towards the services’ overall strategy.</li> <li>Accountable for assuring operational services are adequately scaled based on business demand.</li> <li>Responsible for driving efficient use of available IT capacity.</li> </ul> <p>Environments Management</p> <ul style="list-style-type: none"> <li>Accountable for the availability and configuration of the “pre-live” environments.</li> <li>Responsible for the planning releases through the environments in the most effective manner</li> <li>Responsible for ensuring all pre-live environments are suitably configured from a security and compliance perspective</li> </ul>
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## 5.2 Cost Centre Variances

### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Costs other than Payroll are explained within a subsequent chapter. Payroll and Recruitment are justified within the next section.

The table below shows a payroll variance of £3,379,000.

**Table 1: Variance from the RIGs by GL**

	(£m)			R Y19/20	R Y20/21	R Y21/22
<b>Baseline</b>	<b>Total Operations</b>			<b>17.193</b>	<b>16.228</b>	<b>3.256</b>
<b>Incurred</b>	<b>Total Operations</b>			<b>24.263</b>	<b>25.770</b>	<b>18.864</b>
<b>Variance</b>	<b>Total Operations</b>			<b>7.070</b>	<b>9.541</b>	<b>15.608</b>
	Payroll costs	PR	£m	3.379	7.725	16.229
	Non-payroll costs	NP	£m	(0.021)	0.281	0.766
	Recruitment	RC	£m	(0.125)	0.150	-
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	2.960	1.774	0.242
	Internal services	IS	£m	0.013	0.000	-
	Service management	SM	£m	(0.643)	(1.393)	(1.756)
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	1.507	1.005	0.126
	Office Sundry	OS	£m	7.070	9.541	15.608

### Variance by Sub-Team

The table below shows the payroll variance by sub-team.

In RY20/21, the Design and Test Services and Technology Infrastructure sub-teams showed material variances that exceed the threshold of £0.15m. In the forecast, both of these teams show a material variance for RY20/21 & RY21/22. In addition, Service Design and Transition and Service Operations sub-teams show a material variance for RY20/21 & RY21/22. Lastly, COO Office, Service Management, Strategic Operations and Technical Operations show a material variance for RY21/22.

The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 2: Payroll variance by sub-team**

<b>Operations Payroll Costs</b>	<b>R Y19/20</b>	<b>R Y20/21</b>	<b>R Y21/22</b>
<b>Variance</b>	<b>3.379</b>	<b>7.725</b>	<b>16.229</b>
COO	-	-	(0.142)
COO Office	0.029	0.013	0.298
Design and Test Services	3.085	5.139	5.048
Enterprise Test (BIMI)	0.034	-	-
Service Design and Transition	(0.134)	2.217	5.078
Service Management	(0.044)	(0.161)	1.176
Service Operations	0.056	0.512	2.298
Strategic Operations	(0.140)	(0.308)	0.432
Technical Operations	0.099	0.008	1.805
Technology Infrastructure	0.394	0.304	0.237

## 5.3 Drivers for Variance – Resource

The primary drivers of resource within the function are the Design and Test Services and Technology Infrastructure sub-teams. Both teams moved to the **Operations** cost centre from **Design & Assurance** cost centre as part of September 2019 restructure.

This transfer of resources between cost centres is the primary driver of payroll variance.

The Design and Test Services sub-team alone accounted for over £3 million of payroll variance.

### **5.3.1 Design & Test Services**

Moved to Operations from Design & Assurance as part of September 2019 restructure, the Design and Test Services team is responsible for Design Services including governance of the technical design authority for DCC enterprise and total systems, assuring service provider and DCC compliance with SEC requirements and the development of core DCC products.

In addition, it is responsible for Test Services which is responsible for service delivery to customers across the User Integration Testing environment, the operation of the DCC test lab facility and the ownership and improvement of general testing activities.

#### **Activities driving change in resource in RY19/20**

The Design and Test Services Team was created in RY19/20 by the consolidation and transfer of a number of former CTO functions into a new team inside Operations. This resulted in a large increase in incurred resource costs and a material resource variance. The resources within the team included:

- 25 Solution, Data and Infrastructure Architects.
- Comms Hub product team of 4 Subject Matter Experts (SME). The manager of this team is also the Lead Technical Representative for DCC.
- Devices product team of 9 SMEs, who cover a number of technical smart metering responsibilities.
- Team of 4 to operate the DCC Design Authority.
- Design Director, who has individual accountability for DCC technical engagement.
- Testing Services team of 35 FTEs.
- The Testing Issues team of 4, who are responsible for management of the volumes of testing issues.
- The Test Lab Manager - an individual responsible for managing the new Brabazon facility.

#### **Activities driving change in resource in RY20/21 and RY21/22**

A key part of the team's work in RY20/21 and beyond will be to determine the target operating model for the architecture transformation. In addition, there will be a continuing role as a team of SMEs supporting DCC, enabling the operation of a broad scope of implemented products and services, alongside a pipeline of programme change and product development.

The team will address key challenges around DCC's ways of working and resource management. It will do this by helping move to an outcome-based model for architecture, and by supporting an increased need for DCC experts to support in life product capabilities.

Specific activities:

- Complete Architecture Transformation.
- Implement Management Reporting for Design Services.
- Complete Implementation of Design Authority.
- Effectively Drive Industry Programmes to Minimise Risk and Impact to DCC Operations and Milestones.
- Technical Feasibility Study of ongoing SMETS1 development to support Value Add, Elective Services & SEC Mods.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### **5.3.2 Technology Infrastructure**

The Technology Infrastructure sub-team was created in Operations in RY19/20 following its transfer from CTO. Technology Infrastructure consisted of Cloud, Demand and Capacity Management and

Environments capabilities. All of these capabilities combine to support the DCC network and its ability to deliver the service by ensuring the tools are developed for the DCC to use.

Following further restructures in RY19/20, the roles within Technology Infrastructure were absorbed within other sub-teams across Operations as follows:

- Design and Test Services - Cloud Management.
- Service Operations - Demand Management, Capacity Management and Environments Management.

Following these moves, the Technology Infrastructure function was dissolved.

### **Activities driving change in resource in RY19/20**

The transfer from CTO to Operations of this sub-team and its resources resulted in a large increase in incurred resource costs and a material resource variance. The work here involved SharePoint services development and Cloud services development. In addition, there was work on the Enterprise IT to enable DCC independent IT infrastructure.

The roles within this sub-team include:

- 3 x Cloud Architects (2 Full time and 1 contractor),
- 2 x SharePoint Architects (Contractors),
- 1 x Enterprise IT Architect (Contractor),
- 1 x Enterprise IT Analyst (Contractor),
- 1 x Programme Document Manager (Full Time),
- 1 x SAP and S&D Tester (Contractor).

### **Activities driving change in resource in RY20/21 and RY21/22**

SharePoint services development, Cloud services development and work on Enterprise IT to enable DCC independent IT infrastructure will be required for RY20/21 and RY21/22. Therefore, these additional resources will be required to support these activities.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances

## **5.3.3 Service Design & Transition**

This team is responsible for managing the transition from programme state to BAU, SMETS1 Migration Control Centre and Early Life Support. There were no material variances in RY19/20.

### **Activities driving change in resource in RY20/21 and RY21/22**

#### **Migration Control Centre (MCC)**

The MCC is responsible for:

- Forecasting and Planning - Responsible for SMETS1 industry forecasting and co-ordination of all meters in readiness for migration.
- MCC Operations - Realtime monitoring and intervention of failure to ensure successful delivery.
- MCC Reporting - Exec and industry level reporting on performance and progress of migration.

It was stood up with the intention of being available until FOC is delivered.

The design was predicated on a 'normal working day' migration pattern. Therefore, the size of the team, particularly the operations team, initially undertaking the real time monitoring and incident management, was considered appropriate.

IOC Migrations went live in July 2019 with MOC and FOC going live later into 2019. With these dates in mind the Migration Control Centre (MCC) was established with the intention of being available for 18 months. Current programme slippages, and project learnings, indicate that migrations will continue well into 2022 as residual migrations and clean-up activities continue. It is also clear that

with the introduction of Switching and ECoS both having data migration activity that there is a need for the MCC to continue onto the end of 2022 and potentially into early 2023.

In addition, as the greater understanding of the complexity of migrations has emerged, there has been an increasing recognition of potential ecosystem capacity constraints. The need to operate a shift model was identified. It was further identified that 9 x Operational Analysts would be required to permit the successful operation of this shift model. The model includes a 20% shift allowance to mitigate growing risk that the MCC will potentially need to work a shift pattern in the operations team.

Further additional roles within the MCC include:

- **Planning** - 1 x Planning Manager + 4 Planning Analysts + 1 Data Scientist.
- **Operations** - 1 x Operations Manager + 3 Operations Analysts.
- **Reporting** - 1 x Reporting Manager + 2 Reporting Analysts.

### Product Proving

DCC is developing a Functional Production Proving capability to support and enhance the delivery of its services and to enable DCC to undertake the required level of end-to-end proving of the Smart Metering Network in the live environment.

To facilitate these objectives there is a requirement for five new permanent roles as a solution within Service Transition & Design:

- 1 x Functional Production Proving Manager.
- 4 x Functional Production Proving Analysts.

This will provide 7-day cover across the Functional Production Proving team that will be used to ensure that DCC Total Systems are working as expected for change programmes, release upgrades, replicating in-life faults and health check monitoring.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 5.3.4 Service Operations

The Service Operations Team are dedicated to managing the delivered live services and supporting test environments to meet demands of our customers aligned to our contracted and licenced obligations. The scope of operations covers demand management, operational control and operational assurance functions.

### Activities driving change in resource in RY20/21 and RY21/22

The current operations organisational structure has been an effective enabler to secure clear accountability within the operations team and enable operational growth. With the increasing demands on live service operations and increases in scope, it is now necessary to refine the organisation to accommodate both the current and future requirements.

Following the restructure in RY19/20 whereby the capabilities in Technology Infrastructure moved to Service Operations, the scope for RY20/21 has increased as follows.

- Demand & Logistics Management - 6 FTE transferred into Service Operations from Technology Infrastructure.
- Environments Management - 1 FTE transferred into Service Operations from Technology Infrastructure.
- Capacity and Performance Management - 3 FTE transferred into Service Operations from Technology Infrastructure.
- Release Management – 2 FTE transferred into Service Operations from Technology Infrastructure.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances



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### 5.3.5 COO Office

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team is identical to the forecast in RY20/21, as we expect to continue to require this resource, including the COO, governance and administration staff, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 5.3.6 Service Management

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team decreases relative to RY20/21, but we expect to continue to require much of this resource, including the Director of Service Management, Customer Experience Managers, Service Managers, and Customer Stakeholder and Engagement Manager, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 5.3.7 Strategic Operations

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team decreases relative to RY20/21, but we expect to continue to require much of this resource, including; the Head of Operational Business Planning, Operational Performance Analyst, Director of Strategic Operations, Enterprise Test Analysts and Operational Performance Manager on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 5.3.8 Technical Operations

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team remains relatively flat compared to RY20/21, but we expect to continue to require much of this resource, including the Head of Technical Security Operations Centre, Head of Technical Service Management, Director of Technical Operations and Technical Operations Analysts on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 5.4 Drivers for Variance – Non-Resource

### 5.4.1 Summary

During RY19/20, there were six procurements within Operations that had material variance, (i.e. over £0.15million). The breakdown is provided below.

**Table 3: Material variance for External Services and IT Services in Operations**

	Incurred (£m)	RY 19/20	RY 20/21	RY 21/22
	<b>Total Incurred External Services</b>	<b>2.990</b>	<b>1.774</b>	<b>0.242</b>
	<b>Total Incurred IT Services</b>	<b>1.507</b>	<b>1.005</b>	<b>0.126</b>
	Variance (£m)	RY 19/20	RY 20/21	RY 21/22
	<b>Total Variance External Services</b>	<b>2.960</b>	<b>1.774</b>	<b>0.242</b>
	<b>Total Variance IT Services</b>	<b>1.507</b>	<b>1.005</b>	<b>0.126</b>
GL	Variance Detail (£m)	RY 19/20	RY 20/21	RY 21/22
ES	Ecosystem Management	0.797	-	-
ES	EDAM	0.561	0.779	-
ES	OMS - Order Management System	1.120	0.633	0.129
IT	OMS - Analytics	0.222	0.005	0.005
IT	EIT Wireless	0.254	-	-
IT	EIT Networking	0.270	-	-

### 5.4.2 Ecosystem Management (ES)

#### Driver for the Procurement

As part of its responsibility to manage a nationwide data network and service, DCC is obliged to ensure effective communication between meters, the integrity of the core network, system availability and smart services.

The overall smart ecosystem consists of several interconnecting components, some of which are managed by energy suppliers, network operators and authorised third parties and hence outside the control of DCC. This ecosystem is becoming larger and more complex as the number of meters and customers grows. When changes are made to any aspect of the smart ecosystem, there is a risk that it may impair the performance of the DCC Total System.

At present, the sector and DCC have limited visibility of the changes to the ecosystem and this impacts the sector's ability to coordinate effectively, potentially putting availability and services at risk. For example, since the start of SMETS2 in April 2018, there have been over 80 Severity 1 or 2 incidents that have been attributable to either DCC- or customer-directed change.

To provide customers with greater visibility of the changes being made to the network, we needed to build a system to manage the coordination of change in the DCC total system, reflecting DCC change and those of other parties.

We did not have the necessary capability or capacity to do this in-house and sought a design solution and industry engagement approach from a specialist consultancy.

#### Securing Value for Money

##### Sourcing Approach

DCC had sought its Board's approval in November 2018 to spend money on procuring consultancy support to help design an approach to change coordination from an independent perspective and to seek the views of industry. The consultancy considered views from across the industry and to independently consider the change co-ordination proposal.

In November 2018, DCC opened a tender for consultancy support through our management consultancy framework (estimated to be between 4-6 weeks).

DCC received three responses to the tender, which were evaluated (as per the procurement evaluation criteria) on cost, quality and ensuring the appropriate solution met the required deliverables within the timescales defined.

One of the bids that was received did not comply with the requirements of the RFP and therefore could not be scored.

The remaining two bidders were taken through to interview stage where they were both questioned in detail, particularly on the commercial submissions which were vastly different from each other. At the conclusion of both of the interviews, it was clear that the losing bidder did not understand the requirements and would not be able to fulfil the contract if it were to be awarded to them.

The winning bidder was able to defend their pricing during the interview and had demonstrated value for money by providing access to their SME Panel which was invaluable for the project

DCC negotiated a 5% discount during conversations that took place over the period of the procurement process.

In January 2019, DCC selected a consultancy based on the bids received to:

- Design and build the Ecosystem Management Framework programme — providing a clear roadmap from discovery to implementation via sprints.
- Build a deeper stakeholder engagement plan with BEIS, Smart Energy Code panel and Ecosystem participants to ensure continual testing of concepts, approach and implementation. The Procurement contract was divided into 5 milestones with clear outcome-based requirements, well defined success criteria and measurables with break clauses to allow for swift closure if required.

**Table 4: Procurement Evaluation Breakdown**

Procurement – Ecosystem Management Framework		
Number of Initial Expressions of Interest	3	
Number of Bids received	2	
Number of Bids shortlisted	2 – Both interviewed	
Strengths of Selected Bidder	<p>The winning bidder's approach to the EMF Delivery was well received by the panel. Their quality submission which set them apart from their competitor. Their understanding of the requirements was much greater, and they captured the requirement, built on it and provided a very clear plan of how they would execute the delivery of the framework. They demonstrated a clear grasp of what Smart DCC required as part of this project. They also understood that their approach may need to change after the discovery phase but have included this as part of their plan. They proposed a larger team with an excellent blend of skills. Their proposal also included access to their SME Panel which added an extra layer of industry knowledge and connections to an already excellent proposal.</p> <p>The competing supplier that were unsuccessful in this process misunderstood the complexity of this project and this was evident from to the resource they put forward. They were given an opportunity to revisit their proposal.</p> <p>The revised proposal was reviewed by the panel and it was determined that the bidder lacked the understanding to carry this project all the way through to the end. It was noted that they would be heavily reliant on DCC for support to deliver the requirements.</p>	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	5% discount to [REDACTED]

#### Contract management

To ensure accountability and expected contract performance, payments were tied to milestones and the completion and acceptance of an agreed set of deliverables and activities to be completed per sprint:

- Milestone 1 - Engagement Prep and Regulatory Impact Assessment + Internal and Regulatory Engagement Part.
- Milestone 2 - CDM Mobilisation + Internal and Regulatory Engagement Part 2.
- Milestone 3 - Discovery of Data and Requirements + Internal and Regulatory Engagement Part 3.
- Milestone 4 - Manual Prototype + Ecosystem Target Operating Model (TOM) + Internal and Regulatory Engagement Part 4.
- Milestone 5 - Develop Prototype and Industry Engagement + Internal and Regulatory Engagement Part 5.
- Milestone 6 – Scale + Internal and Regulatory Engagement Part 6.
- Milestone 7 - SMETS1: Define Additional Requirements and Monitor EMF + Internal and Regulatory Engagement Part 7.

### 5.4.3 EDAM (ES)

#### Driver for the Procurement

The evolution of DCC's business has led to an evolution of functional needs from the BIMl tool. Additional functionality and changes requested in the tool, which can require procurement of specialised software and software licenses, Service Providers' contractors, and materials, contributed to the variance in this programme. Due to changing business needs DCC is replacing the current reporting and operational data warehousing tool with the combined fit-for-purpose, Enhanced Data Analytics Model (EDAM). This system falls under Technical Operations Centre's (TOC) remit and allows for a sunseting of the need for future change requests related to continued manipulation and forced add-ons of the current system. This, ultimately, creates an opportunity to decrease ongoing operational costs.

The Enhanced Data Analytics Model (EDAM) and SMETS1 Migration Reporting System (S1MRS) were maintained via a service agreement with [REDACTED] which expired on 31 January 2020. These systems form an essential component of DCC's monitoring and support service in respect of SMETS2 meter installations and the migration of SMETS1 meters into the DCC ecosystem.

DCC has considered three options for establishing a new service agreement as shown below:

Option	Cost (2-year costs) [REDACTED]	Delivery Timescale	Delivery Risk
1. <b>Extension of Existing Service Agreement</b>		N/A	Option rejected because extension of existing contract arrangement capped at 1-year
2. <b>[REDACTED] procurement of new Service Agreement</b>		Solution cannot be delivered by January 2020.	This option requires development of new reporting systems, which may differ from existing reporting baseline.
3. <b>[REDACTED] Re-Procurement of Service Agreement with Capita</b>		January 2020	Low

DCC determined that:

- Cost savings can be obtained by establishing a service agreement that encompasses both EDAM and S1MRS.
- The agreement should be established until end of July 2021 with an option to extend for a further 6 months (2-year term), after which all SMETS1 meters will be enrolled within the DCC ecosystem and the S1MRS will no longer be required.
- Establishment of an agreement with [REDACTED] (which developed the EDAM and S1MRS databases and infrastructure) will be underpinned using the existing systems and support arrangements.
- Outsourcing the service agreement to a new third-party organisation will require establishment and testing of new systems, and is therefore more costly and with greater delivery risk than establishing a replacement service agreement with [REDACTED],
- The [REDACTED] service agreement, which was originally established to support the use of BIMl, cannot be extended for more than a 1-year term. Furthermore, the support elements associated with BIMl (which has been superseded by EDAM) cannot be terminated in isolation.

It was therefore recommended that a replacement service agreement is established with [REDACTED] and this [REDACTED] procurement approach is supported by the DCC Procurement and Commercial Team. The indicative cost of the 2-year service agreement is approximately [REDACTED] which has already been budgeted.

This has allowed DCC to fully support the smart roll out across the country with advanced analytics that is available to customers, suppliers and other stakeholders including Gem SERV and BEIS.

There have been numerous high-profile complex issues which have required the use of the advanced analytics capability to either prove, disprove or support assertions made on service stability. Without the advanced analytics, customers would have lacked the confidence to continue the roll out at pace. The advanced analytics are at the request of Suppliers, Customers and Stakeholders. The capability is now seen as a trusted advisor to the industry.

### Securing Value for Money

**EDAM:** DCC has taken the decision to move away from Capita Private Cloud (CPC) and develop a new data system which will be able to scale to handle the amount of data 53m meters will produce. The current solution within CPC is far too costly and will not be able to scale to the required capacity. DCC are developing a new platform utilising cloud technology but that development is not yet ready. DCC are using a phased approach to ensure there is no effect on our live service or regulatory reporting. The first phase will see DCC move away from CPC and start utilising cloud technology. This will drive a reduction in monthly spend for the physical hardware, but this system will still require support. Phase 2 will deliver a new reporting platform which will require a procurement to be conducted. This new contract is a stop-gap until the new solution is in place.

While this work is still in Phase 1, there has been work progressing to identify the right solution for Phase 2. An RFI market engagement exercise was carried out. DCC received responses from 11 external suppliers. These have helped define the solution requirements. A business case is being developed to explore the merits of five potential solutions and to narrow down the options to a single favoured solution. This will then be submitted to the DCC board and a likely RFP issued to the market and evaluated later in the year.

**S1MRS:** The SMETS1 Migration Reporting System (S1MRS) was developed using the existing BIMi contract. When work started on the S1MRS, the database would have been stood up and fully functioning prior to the BIMi contract ending, but due to the slippage in the LC13 plan, this is now going to extend beyond January 2020. The single source procurement option is being exercised due to the fact that this requirement has a defined lifespan and already had a considerable amount of expenditure to develop the system. All the development has gone through extensive testing (SIT B, SITA, UIT B, UITA & EOC) with multiple Delivery Partners and Service Providers, so bringing in a new vendor would not be feasible. If a new vendor was introduced, they would have to re-develop the whole system (unjustified additional cost), and that solution would then have to go through all the relevant testing again (unjustified additional time). This would add significant delay to the SMETS1 roll out and add in additional unnecessary risk.

## 5.4.4 Order Management System (OMS)

This section sets out the overall explanation for the Order Management System (OMS) and provides detail on the variance for External Services and IT Services within the OMS. More detail is provided in 5.4.4 A, 1.4.4 B and below.

### Driver for the Procurement

OMS is DCC's strategic tool set for the forecasting, ordering, returning and tracking of assets. When operating at scale, it is estimated that there will be in the region of [REDACTED] of assets in use. Presently, OMS is split into three instances, with one in the North and two covering South and Central. Operating these three instances generates a number of risks, which can be grouped into the following areas:

- Increased operational support costs with slow development & enhancement.
- Poor user experience through functional differences and multiple logins.
- Inefficient and manual processes for DCC and Service Providers that are unsustainable in the long term given the anticipated increase in the volume of assets managed by the OMS.

To resolve these risks and to deliver a number of benefits, the OMS Project was launched to consolidate functionality into a single portal. A budget of [REDACTED] was included in Business

Plans to achieve this objective. The proposal is to procure a supplier via RFP to develop the new portal in 2019 and provide ongoing operational support for a 3-year period.

There is a saving of £1.568m over the 3-year period. These savings are made in the following areas:

- £568k DCC Efficiency Savings
- £40k Service Centre Savings
- £300k Licence Savings
- £660k Support Savings
- **TOTAL £1.568m**

### **Securing Value for Money**

To establish which software solution would be most suitable for the OMS a technical and financial appraisal was performed using requirements from the OMS project and considering the needs of other known projects in DCC, such as the Customer Engagement Portal (CEP). This appraisal concluded that [REDACTED] Dot Com (SFDC) provides the best solution fit. Alongside this, MuleSoft, a wholly owned subsidiary of [REDACTED], would be the integration platform for SFDC (this was a separate procurement but was not materially variant).

A competitive procurement was undertaken to source a SFDC delivery and integration partner. This resulted in the selection of [REDACTED] [REDACTED] as the preferred supplier and awarded the contract. In order to validate the DCC requirements and gain more cost certainty a three-week fixed-price discovery phase was contracted for prior to agreement for the full scope.

During the lifetime of this project and other linked projects such as CEP, various new requirements have necessitated the procurement of new licences for either additional users or for additional modules. These have been procured on a [REDACTED] basis, as was the case for the original SFDC and MuleSoft licences.

## **5.4.4 A OMS – Analytics Software (IT)**

### **Driver for the Procurement**

SFDC licences can typically only be purchased directly from [REDACTED]. [REDACTED] are in the process of completing a reseller agreement to leverage the 2000+ SFDC licences they currently own to deliver substantial cost savings in licence purchase for their clients. It is anticipated that this agreement will enable DCC to purchase licences at around a 30% discount, a significant reduction on SFDC licensing that is not readily available from other channels.

### **Securing Value for Money**

The agreed upon sourcing strategy for the OMS Software was a [REDACTED] procurement (NCP) with SFDC. This was based upon a technical and financial appraisal which was conducted by DCC's IT Director and approved by [REDACTED] to ensure the best value for money. The appraisal was based on four market leading solutions and compared:

- Whether they met the requirements with configuration only or required development/coding.
- How swiftly they could be deployed.
- Their current market share.
- The cost of licensing.

To secure value for money with licensing DCC leveraged its relationship with Capita as they have signed an enterprise Agreement for circa 2,000 licenses and achieved significant discounts against the RRP. DCC could not have achieved such discounts via a direct engagement with SFDC given that DCC's volume is significantly lower than Capita's volume.



## 5.4.4 B OMS - Order Management System (ES)

### Driver for the Procurement

A technical appraisal has been undertaken to determine the optimum solution for delivering the OMS requirements and other similar known DCC requirements including CRM and Extranet. This appraisal is available on request and recommends the use of [REDACTED] Dot Com (SFDC) solution.

The proposed sourcing strategy is to buy SFDC product licences from [REDACTED] volume pricing and run a competitive tender for the delivery of a configured [REDACTED] solution by a specialist third party delivery partner, who would also integrate the solution with Arqiva and Telefonica.

### Securing Value for Money

Internal Subject Matter Experts (SMEs) created a list of potential suppliers, and a market warming exercise was undertaken to select a shortlist of suitable and capable providers. Following this, a competitive procurement between the following providers was undertaken:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The recommendation was to proceed with [REDACTED] (due to the strengths contained in Table 5 and the scores in

Table 6 below), but to enter into a standalone Agreement for a discovery phase prior to contracting for the full delivery of the solution. This was predominantly to elaborate on requirements and ensure commercial leverage was maintained to negotiate additional costs resulting from revised requirements. A 20% contingency was included in the Board Paper to account for potential increases in cost due to changes in requirements.

The table below provides a brief summary of the procurement approach and savings realised through DCC.

**Table 5: Procurement Evaluation Breakdown**

Procurement – Order Management System		
<b>Number of Bids received</b>	4	
<b>Number of Bids shortlisted</b>	3	
<b>Strengths of Selected Bidder</b>	[REDACTED] provided a superior quality response to the other bidders at a lower price. They scored higher than all other bidders in both the quality and commercial elements, and their combined score was over 10% higher than the nearest bidder.	
<b>Challenge by DCC</b>	<b>Initial Price</b>	<b>BAFO</b>
	[REDACTED]	[REDACTED]
<b>Cost following the Discovery Phase</b>	[REDACTED]	

And below is a breakdown of the scores for the four bidding companies.

**Table 6: Procurement Evaluation Breakdown Overall Ranking**

[REDACTED]

### 5.4.5 EIT Wireless (IT) - part of the Enterprise IT (EIT) programme

This area of variance is part of the overall Enterprise IT (EIT) programme and was procured as part of it. The text in this section sets out the *Drivers for Procurement* and *Securing Value for Money* for both EIT as a whole and the EIT wireless costs within.

Please note that for future regulatory years, EIT programme delivery will move out of the Operations cost centre.

#### Driver for the Procurement

The DCC's current IT services are hosted and operated through Capita's shared infrastructure. This operating model provided a suitable environment for the delivery of development programmes and services to customers during the early roll out of smart meters. However, as the DCC has grown in maturity and complexity the needs of the business have evolved, necessitating a change in the way the DCC procures, manages and operates its underlying Enterprise IT (EIT) including network services.

The changes proposed are aimed at delivering two main objectives:

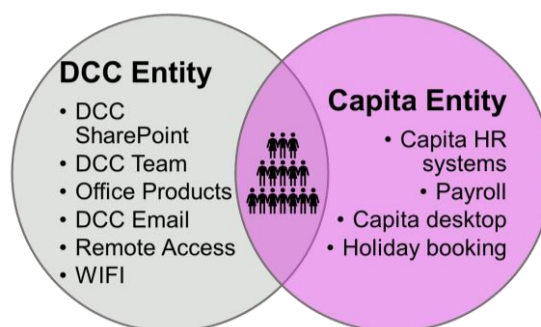
- Firstly, an external security audit has recommended that the DCC must better control its data and systems to deliver its licence obligations and ensure that these controls are managed effectively.
- Secondly, as the DCC's business model matures, its systems will need to provide appropriate controls to ensure projects and market information are held in a wholly confidential manner (Wholesale Model), including separation from Capita.

The Enterprise IT (EIT) Programme has been established to:

- Transition from the current Capita shared network and systems ('Capita Shared') to a dedicated network and systems for use by DCC ('DCC Dedicated')
- Create the capability to manage and develop the DCC Dedicated network, systems and applications, including agreement of new service contracts with [REDACTED] (DCC's current service provider) for a year post migration after which it will be competitively procured.

DCC staff will continue to access Capita Shared systems for centralised corporate applications (including finance, HR and Capita Desktop) from a DCC secured and controlled End User Device (laptop) using their existing user identities and credentials. However, the DCC systems will be accessed via a separate identity and credential that is specific to, and managed by, the DCC.

This separation of Capita Shared and DCC Dedicated networks, systems and applications is illustrated in the following diagram:



**Figure 5: The separation of Capita DCC networks, systems and applications**

#### High Level scope of the programme

The establishment of the DCC Dedicated infrastructure encompasses the following:

- **Identity** - Establishment of a single identity across all DCC systems and the capability to manage DCC users, giving greater access control and the ability to provide a service directly to customers.
- **DCC Network** - Establishment of a DCC Dedicated Network and associated monitoring and controls, including WIFI and Cloud environments.
- **Office365 and Productivity Tooling** - Establishment of DCC Dedicated Office 365, including email
- **End User Compute** - Provision of Dedicated DCC secure managed desktop with the option of Bring Your Own Device.
- **Business System Integration and Business Change Plan** - Migration of DCC staff onto the DCC Dedicated network and systems while maintaining access to relevant Capita Shared systems.
- **Documentation** - To enable support, maintenance and development of the DCC Dedicated network and systems.
- **Monitoring Requirements** - Establishment of the capability to monitor the DCC Dedicated network.

## Securing Value for Money

### Evaluating the options

The following delivery and migration options have been considered.

**Option 1** – Do nothing. This option has been rejected. The current DCC IT and network environment will not address the risks and observations identified in the external security audit and does not give assurance to customers that their commercially sensitive data are held in a wholly confidential manner, including from Capita. The costs for this option are based on the ongoing BAU support costs of [REDACTED], on which the DCC business plan is based.

**Option 2** – [REDACTED] design and deliver the DCC Dedicated network and systems, including migration of DCC staff, data and applications. This option addresses the risks and observations identified in the external security audit and meets DCC delivery timelines. The option is estimated to cost [REDACTED] (including expenditure in FY 2019/20 and FY 2020/21), of which [REDACTED] is attributable to [REDACTED].

**Option 3** – Competitively procure a third party to design and manage delivery of a DCC Dedicated network, including migration of DCC staff, data and applications. This option addresses the risks and observations identified in the external security audit but with the following disadvantages when compared with Option 2:

- Increased delivery timescales associated with the competitive procurement process.
- Increased delivery complexity associated with the requirement for the third party to work closely with Capita and lack of/restricted access of the third party to the Capita Shared network and systems.
- Increased cost. This option is estimated to cost in excess of [REDACTED] based upon ROM cost obtained from Microsoft.

**Delivery Option 2 was recommended and signed off by the Board on 24/09/2019.**

### Financials / Cost

The costs associated with delivery option 2 are summarised below and include:

- the cost of delivery and migration work undertaken by [REDACTED]
- other costs that are necessary for the establishment of a DCC Dedicated infrastructure, including DCC staff costs, Microsoft licences and other licence costs including for SIAM (Service Integration & Management) monitoring.
- Cloud Connectivity operational costs

[REDACTED] currently provides support services to DCC for the use of the Capita Shared network. The costs associated with this support activity are excluded from the table below (and this request for

funding) on the basis that these costs have previously been approved in the DCC Business Plan and the service is already being consumed.

[REDACTED] will continue to provide support services in relation to the use of the DCC Dedicated Network (and corporate systems that will be consumed via the Capita Shared Network) for 1-year post migration in order to minimise delivery risk and costs and to ensure continuity of support immediately post establishment of the DCC Dedicated infrastructure. However, a managed service contract (or Master Services Agreement) will be established with Service Levels and KPIs that meet the DCC's requirements. Thereafter, the DCC will enter into competitive procurement for a managed service contract. The current and estimated future service costs are set out below, the cost reduction being associated with a downward price negotiation, rather than directly related to the creation of a Dedicated DCC infrastructure.

- Current service costs with [REDACTED]: [REDACTED]
- Estimated service costs with [REDACTED] (FY 20/21): REDACTED]

Cost Type	FY19/20	FY20/21	Subtotal
<b>Capita IT&amp;N</b>	[REDACTED]		
Implementaiton Cost			
Shared to dedicated			
Delviery risk 20%			
Migration support			
Cloud connectivity implementation			
Cloud connectivity tooling			
Operational Cost			
Cloud connectivity oprational costs			
Non Capita Costs			
DCC resource costs			
Microsoft licencing			
Cloud licencing			
Other licencing			
<b>Total Spend</b>			

**Figure 6: Estimated (at the time of approval) costs associated with Option 2**

## 5.4.6 EIT networking (IT) - part of the Enterprise IT (EIT) programme

This area of variance is part of the overall Enterprise IT (EIT) programme and was procured as part of it. As such, the overall *Drivers for Procurement and Securing Value for Money* are set out in section 5.4.5 above.

### Driver for the Procurement

DCC utilise the shared group infrastructure and services of Capita Business. A transformation has been launched to provide DCC with a level of separation from the group IT infrastructure but retain access to necessary shared services.

Within the scope of the deliverables was new dedicated WAN and LAN for DCC which would be deployed to all DCC end sites – Brabazon House, Ibex House and Discovery House.

### Securing Value for Money

The Service has been designed to provide a cost-effective solution and is underpinned by next generation application aware security systems. Included within the bill off materials was the provision of hardware and licences

## 6 Design and Assurance (CTO) Cost Centre

### 6.1 Purpose, Scope and Structure

#### 6.1.1 Purpose

The Design and Assurance (CTO) function strategy has markedly changed during RY19/20, with significant restructure activities from September 2019. Before that date the function was about strategy, vision and execution of technology.

After the restructure, the CTO function retained accountability for Strategy and Vision, but execution of technology projects and programmes moved to Operations and Delivery functions. The CTO function now revolves around three core principles:

1. To ensure the technology strategy over a two to five-year horizon is in place, to scan for major technology issues ahead and plan for their mitigation as part of the strategy and to ensure it is aligned to future business strategy and objectives.
2. To assess new technology and investigate whether it brings benefits to DCC and its customers. Also, to implement proof of concepts to demonstrate how it can be added into our strategy and where it can sensibly be included in our technology roadmap.
3. To ensure DCC has a joined-up data strategy for existing and new systems and services. Currently this is being looked at tactically within the Technical Operations area, but data services and capability will be a core part of both Network Evolution and the technology strategy to open up new services and innovation to the benefit of our customers.

#### 6.1.2 Scope

The full range of activities undertaken over the course of RY19/20 are listed in the *Key events and objectives driving activity and cost* section below. After the restructure of September 2019 there was a much sharper focus on, and stronger mandate for, driving the Network Evolution programme (NEP).

Currently, the main part of the scope of the CTO function is to shape and scope the NEP against the agreed principles of the programme, and to deliver Proof of Concepts against the scope defined by the Strategy and Product function.

The NEP has four defined areas of scope:

1. To shape the procurement of the new DSP function.
2. To define the capability and design of the Network Evolution Comms Hubs and Networks.
3. To create the strategy for SMKI extension or replacement.
4. To implement a Test Strategy that drives lower cost and faster test cycles through Test Automation and more risk-based testing.

In addition, the function is involved in creating proof of concepts to look at new business ideas to generate better performance and value for money from our network. Currently these include:

- How DCC can support the government strategy for EV charging infrastructure
- Interoperability Checker – give customers visibility of the switchability of their meter.
- How Internet of Things (IoT) sensors can be integrated into the network.

More proof of concepts will take place through RY20/21 where we consider they are likely to be of benefit to DCC and our customers, and this plan assumes that the rate of proof of concept requests stays largely similar to RY19/20.

#### **Key events and objectives driving activity and cost**

The structural changes to the team had a significant impact, reducing overall resource costs significantly. The main deliverables worked on over the course of RY19/20 included the delivery of the following functional objectives:

- Drive implementation of Test Strategy.
- Establish CTO Innovation team.

- Cloud Adoption.
- DCC Customer Engagement.
- Establish technology to support cost-effective change process.
- Data Hub initiatives.
- CTO upskilling programme.
- Career progression plans.
- Key person risk log.

### 6.1.3 Design and Assurance (CTO) Cost Centre Structure

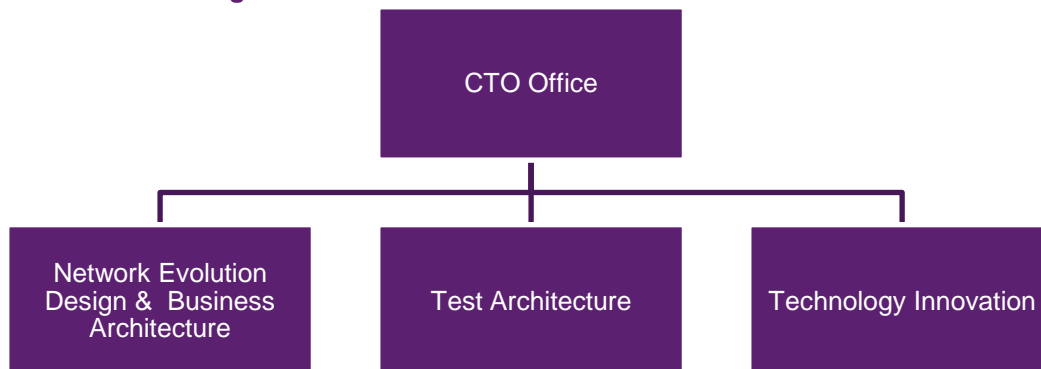
During RY19/20, there was an organisational restructure. The CTO function retained accountability for Strategy and Vision, but execution of technology projects and programmes moved to Operations and Service Delivery functions.

This restructure was carried out in order to clarify focus within the CTO, Operations and Service Delivery functions. Service Delivery now has the focus and the necessary accountable resource to concentrate on major industry programmes and delivery of change. Operations now has the focus and the necessary accountable resource to concentrate on operation of the core systems, qualified DCC users and in-life product changes on a broadly 0 to 2-year horizon. CTO has been refocused to concentrate on the future technology landscape of the DCC, on a broadly 2 to 15+ year horizon.

Because of this refocus, the Business Analysis, Test Assurance and Testing Services teams were dissolved and transferred into the Service Delivery (Programme) cost centre. In addition, the Communications Hub and SMWAN, Data and Technology Infrastructure teams were dissolved and transferred into the Operations cost centre. Both sets of transfers combined to significantly reduce the headcount within the CTO function.

At the end of RY19/20, the cost centre's organisational structure is as follows:

**Figure 7 – Cost centre organisational structure**



The table below provides the overview of the major structural changes to the CTO cost centre during RY19/20 and a description of the teams within the structure.

	Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Comments / Description
Test Assurance and Testing Services	Test Governance	-	Dissolved and moved into <b>Service and Delivery (Programme)</b> as <b>Test Assurance Practice</b> as part of September 2019 restructure
	Testing Issues	-	
	Testing Services	-	
	Operations	-	
Design	Design Architecture	- Business Architecture	<p>Majority of Architects moved into <b>Design and Test Services</b> in <b>Operations</b> as part of September 2019 restructure</p> <p><u>Business Architecture</u></p> <p>The Network Evolution Business Architecture team are responsible for working with our customers on improvements to existing ways of working and how changes to process coupled with Network Evolution technology can maximise the benefits of the programme. A large amount of their time will be spent working with external groups such as SEC Panel and bilaterally with customers to understand where there are opportunities to change the ways of working which may also include regulatory change if this is sensible to implement.</p> <p><u>Test Architecture</u></p> <p>The test architecture team are responsible for reviewing existing test practices, technology and tooling and defining new ways of working aligned both to the existing systems estate, and as part of the NEP to incorporate technology that maximises both testing efficiency and quality of deliverables. It will drive the Test Automation strand of work.</p> <p><u>Design</u></p> <p>The Network Evolution Design team are responsible for designing the Enterprise Architecture for the DSP re-procurement and Network Evolution comms hubs, as well as choosing network providers and working with CISO</p>
	Design and Testing Authority	- Test Architecture - Design	



			on the Network Evolution SMKI design. This team will consist partly of permanent CTO personnel and architects and BAs brought in from Ops and Service Delivery.
	Business Analysis	-	Dissolved and moved into <b>Service and Delivery (Programme)</b> as <b>Business Analysis Practice</b> as part of September 2019 restructure
	Communications Hub and SMWAN	-	Dissolved and moved into <b>Operations</b> as <b>Design and Test Services</b> as part of September 2019 restructure
	Data	-	Dissolved and moved into <b>Operations</b> as <b>Design and Test Services</b> as part of September 2019 restructure
	Technology Infrastructure	-	Dissolved and moved into <b>Operations</b> as part of September 2019 restructure
	Technology Innovation	Technology Innovation	The innovation team is responsible for working with the Strategy and Product team to implement proof of concepts to explore how technology can sensibly support new business opportunities. It also reviews new technologies as they become available and recommend how these can be implemented to improve cost or customer service for DCC.
	CTO Office	CTO Office	Comprises the Chief Technology Officer and staff responsible for the overall cost centre business management and administration.

## 6.2 Cost Centre Variances

### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Non-payroll costs are explained in a subsequent section. Payroll and Recruitment are justified within the next section.

**Table 1: Variance from the RIGs by GL**

	(£m)				RY19/20	RY20/21	RY21/22
<b>Baseline</b>	<b>Total Design &amp; Assurance</b>				<b>10.660</b>	<b>9.630</b>	<b>1.588</b>
<b>Incurred</b>	<b>Total Design &amp; Assurance</b>				<b>6.371</b>	<b>1.778</b>	<b>1.599</b>
<b>Variance</b>	<b>Total Design &amp; Assurance</b>				<b>(4.290)</b>	<b>(7.852)</b>	<b>0.011</b>
	Payroll costs	PR	£m		(4.745)	(7.479)	0.106
	Non-payroll costs	NP	£m		(0.245)	(0.405)	(0.053)
	Recruitment	RC	£m		(0.173)	0.070	-
	Accommodation	AC	£m		0.135	-	-
	External services	ES	£m		0.759	(0.013)	(0.028)
	Internal services	IS	£m		(0.022)	(0.025)	(0.015)

## Variance by Sub-Team

As can be seen below, there are no material (over £150K threshold) variances in costs incurred in RY19/20. However, there are some forecast payroll variance in the *Business Architecture* team for RY20/21 and RY21/22 and for *Technology Innovation* and *Test Architecture* in RY21/22. The table below shows the payroll variance by sub-team. The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections

**Table 2: Variance Cost by Sub-team**

CTO Payroll Costs	RY19/20	RY20/21	RY21/22
<b>Variance</b>	<b>-4.745</b>	<b>-7.479</b>	<b>0.106</b>
Business Analysis	(0.386)	(0.445)	-
Business Architecture	(0.102)	0.395	0.657
Comms Hubs and SM WAN	(0.108)	(0.189)	-
CTO	-	-	(0.251)
CTO - IT	(0.295)	(0.363)	-
CTO Office	(0.114)	(0.489)	(0.141)
Demand and Delivery	-	-	(0.129)
Design	0.010	(0.139)	0.133
Design - Architecture	(0.057)	(0.105)	(0.078)
Design - Business Analysis	(0.015)	-	-
Design and Test Services	(0.269)	(0.523)	(0.224)
Design and Testing Authority	(0.153)	(0.296)	(0.143)
Design Services - Architecture	(0.482)	(0.971)	(0.132)
Design Services - Comms Hubs	(0.530)	(0.934)	0.092
Service Delivery Office	0.000	-	-
Service Design and Transition	-	-	(0.103)
Technology	(0.061)	(0.105)	-
Technology Infrastructure	(0.371)	(0.799)	-
Technology Innovation	(0.014)	0.027	0.199
Technology Platforms	(0.107)	(0.150)	-
Test Architecture	(0.098)	(0.143)	0.161
Test Assurance	(0.275)	(0.152)	0.066
Test Assurance - Operations	(0.247)	(0.127)	-
Test Assurance - Test Governance	(0.055)	(0.069)	-
Test Assurance - Testing Services	0.040	-	-
Test Assurance and Testing Services	(1.054)	(1.902)	-

## 6.3 Drivers for Variance – Resource

Due to a significant organisational restructure during RY19/20, none of the sub-teams reported a material payroll variance. However, there are forecast payroll variance in the Business Architecture team for RY20/21 and RY21/22; and for Technology Innovation and Test Architecture in RY21/22.

### 6.3.1 Business Architecture

The Network Evolution Business Architecture team are responsible for working with our customers on improvements to existing ways of working and how changes to process coupled with Network Evolution technology can maximise the benefits of the programme. They will work with other teams within DCC to guide the requirements gathering, procurement and design of the new technology and processes to be delivered within the NEP.

The Business Architecture team will be heavily engaged in the NEP across three of the four core pillars of the programme, where fundamentally core components of the DCC ecosystem are being redesigned and significantly enhanced:

- New Communications Hub and WAN connectivity approach.
- New Data Services Provider infrastructure, exploring new technologies, Cloud-based delivery and more modular architecture.
- Re-procurement and extension of the SMKI solution.

These three core pillars are progressing in parallel but with different start dates and durations. As such it is envisaged that the CTO Function will scale up its Business Architecture resource ahead of and in-line with the Programme requirements, as these resources do not exist within the slimmed down CTO Function and therefore need to be resourced between 2020 and 2022. Note that the fourth pillar of the NEP, Test Automation, is largely being driven and resourced out of the Test Architecture team.

#### **Activities driving change in resource in RY19/20**

The majority of Architects and Subject Matter Expert (SME) design and business analysis resource moved out of CTO into Delivery and Operations as part of the restructure in Q3 2019. As a result, there is an underspend in resource during RY19/20.

#### **Activities driving change in resource in RY20/21 and RY21/22**

As the CTO Function resource budgets for 2020 – 2022 were set during 2019, when the NEP was still being shaped and scoped and the restructure of CTO into Operations and Delivery had yet to occur, it is not surprising that RY20/21 and RY21/22 resources figures for the core team were subject to change (leading to a variance as more clarity has been achieved). As NEP has matured and the restructure bedded in, the CTO Function Plan and related budget has evolved with a clearer picture of what resource requirements will fall into place in order to support the architecture work associated with programme – noting that this resource does not yet exist within CTO or elsewhere within DCC because the Architects and Design resource that moved out of CTO into Operations and Delivery are engaged on major delivery programmes, and NEP is additive to that.

As such it is vital that in the wake of the restructure, CTO builds out its resource pool only to the extent required to fulfil its core purpose and function, and to ensure it has expertise in each of the core pillars of the NEP that need to be delivered in the 2020-2023 timeframe.

The additional roles envisaged that drive the variance in previously forecasted costs for RY21/22 are still subject to the changing shape of the NEP but likely to be:

- During RY20/21
  - A new Head of Business Architecture.
  - A new Infrastructure Enterprise Architect to engage on the DSP replacement programme.
  - A new Security Architect to engage on the Security Programme within NEP.
  - A new Data Innovation Lead to address the growing demand for data services within the DCC User community and other interested parties.
- During RY21/22
  - Additional Infrastructure Architects as the DSP Programme fully develops into design and procurement.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances

The CTO Function will ensure that resourcing of these roles is only progressed in line with progress of the NEP and if scope or timelines should change, CTO resourcing will adjust accordingly. As such the figures demonstrating a variance are a forecast only based on current assumptions.

## **6.3.2 Technology Innovation**

#### **Activities driving change in resource in RY21/22**

The resource forecast for this sub-team is identical to the forecast in RY20/21, as we expect to continue to require this resource, including the Head of Assurance and Technology Innovation

Director, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 6.3.3 Test Architecture

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team decreases relative to RY20/21, but we expect to continue to require much of this resource, including the Test Director and Test Assurance Architects, on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 6.4 Drivers for Variance – Non-Resource

### 6.4.1 Summary

CTO had several procurements in the past year. Two of which had a variance that exceeded the materiality threshold of £0.15million: Emulators and Testing - [REDACTED].

The breakdown is provided below.

**Table 3: Material variance for External Services in Design & Assurance (CTO)**

	Incurred (£m)	RY 19/20	RY 20/21	RY 21/22
	<b>Total Incurred External Services</b>	<b>0.934</b>	-	-
	Variance (£m)	RY 19/20	RY 20/21	RY 21/22
	<b>Total Variance External Services</b>	<b>0.759</b>	<b>-0.013</b>	<b>-0.028</b>
GL	Variance	RY 19/20	RY 20/21	RY 21/22
ES	Emulators	0.230	-	-0.025
ES	Testing - [REDACTED]	0.419	-	-

### 6.4.2 Emulators

#### SMETS Design – [REDACTED] Procurement

This procurement accounts for the majority of the overall variance in this category.

#### Driver for the Procurement

Device emulators are used in the integration environments to enable DCC to test their systems against the latest version of technical standards. Technical Standards are the Smart Meter Equipment Technical Standards (SMETS) and the Great Britain Companion Specification (GBCS). These Standards are applicable to the DCC systems and Smart Metering Equipment. They are baselined twice a year as part of development of the Smart Energy Code and the DCC systems must be tested to ensure they are operating in line with these standards prior to them coming into force.

Device emulators replicate the behaviour of Electricity Meters, Gas Meters, In-home displays, Pre-Payment interface Devices and HAN Connected Auxiliary Load Control Switches in relation to the GBCS standard. They also have many features of the SMETS standard but will not measure and record energy consumption.

The use of device emulators is vital for DCC testing. Real meters, In-home displays and Prepayment interface devices compliant to the new standards may not be available in the marketplace until after DCC testing of the technical standards. Therefore, emulators need to be developed, procured and

supported by the manufacturer in order for DCC to test its implementation of the new standards before they are planned to be rolled out into the live Smart Metering environment.

### Securing Value for Money

SMETS Design has been providing device emulators to the DCC since 2016 and has a track record of delivering the products on time to the correct technical standards. They have also provided technical support to the DCC testing team, providing training and issue resolution to keep the testing programs to their prescribed timescales.

Each new requirement for emulator development or engineering support goes through a procurement exercise to ensure that Smart Meter Design are offering the best price to DCC. This was performed as part of the November 2020 release testing program.

It should be noted that no other company currently offers this product or could develop a product in the short timescales required by the testing programme, so a competitive procurement process was not conducted. DCC has worked with SMETS Design in numerous regulatory releases in the past and they have proven their ability to deliver a product on time, in budget and to the required specifications.

Time constraints were also a large factor in not conducting a competitive process, as described below.

- The technical standards were released by BEIS in January 2020. Once the scope of the release is known from BEIS then the following activities were taken:
  - DCC drafted and internally agreed the scope of November 2020 testing for the emulators.
  - DCC passed the requirements to SMETS Design for review and quotation. This was performed in early March 2020.
  - SMETS Design impact-assessed the requirements and sought clarifications. Once clarifications had been addressed, they provided a quotation.
  - The quotation provided by SMETS Design was reviewed against the last release where emulators were developed to support, November 2019 release. They were found to be comparable and reasonable.
  - DCC agreed the contract with SMETS Design.
  - SMETS Design began development of the emulators.

Once the contract was agreed and signed, this only provided 3 months of development and testing of the new emulator before being required in testing at the start of July 2020. A competitive procurement exercise would not have been feasible in these timescales as it would have had to take place after the technical specifications had been baselined by BEIS, elongating the process and missing program milestones.

## 6.4.3 Testing - [REDACTED]

### Driver for the Procurement

This was a new activity this year that had not been forecast but arose due to the discovery that Communication Hubs and certain Electricity meters were found to have interference in the form of Radio Frequency (RF) noise across their Intimate Communication Hub Interface (ICHI). This was causing the loss of communications to the Smart Metering Wide Area Network (SMWAN) and therefore removing Smart functionality from the equipment in customers' properties. The issue was identified in Q4 2018 and analysis in 2019 led to the initiation of the testing.

Following identification of the issue in Q4 2018, DCC and industry in 2019, requested, devised and agreed a series of tests to evaluate the different levels of RF noise created by the Electricity Meters. They then set limits on these levels through documenting in the ICHI Specification (ICHIS) document.

### Securing Value for Money

This was a new activity that had not been forecast and was therefore a variance. [REDACTED] was the company the industry chose to perform this testing. Historically the industry has used [REDACTED] for RF testing and to DCC's knowledge they are (at the time of procurement) the only

organisation who can deliver this specialist testing in the UK. Meter Manufacturers provided their device models to be tested by [REDACTED] at their facility.

DCC contracted with [REDACTED] to provide this testing for 6 months, while we reviewed whether these services could be provided internally at lower cost. We chose this option as it was the most economic and efficient approach to deliver the testing activities while we sought for a longer-term solution to save our customers money.

After agreement at the ICHIS Working group/BEIS that this service should be offered for free to customers by DCC, the most efficient and effective customer proposition for this service needed to be sought and this was thought to be to use the facilities at DCC's Brabazon House.

Moving the testing in-house from [REDACTED] to the DCC facility represents a significant cost-saving to industry as described below from the original business case.

**The transfer in-house represents an annual saving of £470K (not including initial set up costs).**

Provider	Cost (Annualised breakdown)	Total Cost (Annualised)
[REDACTED]	[REDACTED]	
DCC		

**Figure 8: Breakdown of the expected savings following switch from [REDACTED]**

## 7 Security Cost Centre

### 7.1 Purpose, Scope and Structure

The Security Function provide security assurance, best practice in cyber security and operational support for cyber security defence. The scope of the function includes the security of the DCC Total System, all aspects of corporate security within Smart DCC, and engagement on all security matters. Security aims to do this by providing the following services:

- Ensuring the platform and the new programmes being added to it are secure.
- Addressing the changing threats to the systems through a risk-based approach in line with industry and regulatory guidance.
- Providing security assurance to the regulators and our customers in support of the unique selling point of our secure operation and positioning DCC as a trusted partner.

#### Key events and objectives driving activity and cost

The main deliverables the security function worked on throughout RY19/20 include:

- Providing threat intelligence services.
- Building foundation security operating capability into the TOC.
- Ensuring assurance processes were operating efficiently.
- Maintaining documentational and security controls.
- Improving the process of new service onboarding.



- Restructuring the function to be threat-led.
- Improving the security culture within DCC.

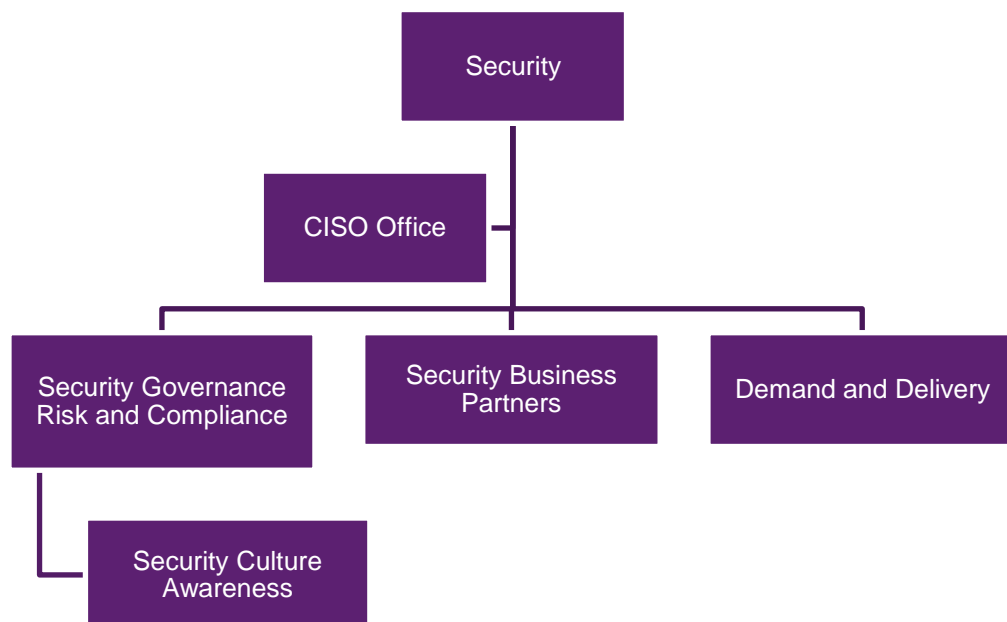
### 7.1.1 Cost Centre Structure

During RY19/20 the DCC Security team embarked on a strategic restructure to improve capabilities and effectiveness and to achieve alignment to the National Institute of Science and Technology (NIST) Cyber Security Framework (CSF). The move towards this framework was driven by the need to transform DCC's cyber security approach into a threat-led security operation rather than a project-based compliance operation. The CSF and several other standards offered the ability to recast the cyber security function into an agile and proactive function working under the premise that prevention is much more preferable than the cure, so that threats can be dealt with before they turn into damaging incidents. The CSF is an industry and globally recognised approach to drive a modern security team to meet the types of threats that are both commonplace and typical of the sector we are working in. It supports the regulatory requirements and the needs of the National Cyber Security Centre (NCSC).

The security function of DCC is undergoing a restructure. The previous structure of the security function was appropriate for DCC in its early start-up phase. However, over the last few years, DCC has matured into a fully operational organisation, with a network connecting millions of devices. Additionally, DCC is also delivering energy system IT change programmes, including Switching and SMETS1 meter migration which was not originally envisaged and created additional demand on the security function's resources. The restructure, whilst providing additional capabilities and capacity, supports the aim of being "threat-led" as an organisation. This enables DCC to identify, detect and protect against security risks, rather than simply reacting to issues. The new threat-led approach and use of the MITRE ATT&CK framework has already informed DCC and the wider industry of emerging threats that may have impacted the Smart Metering ecosystem.

As part of the restructure, a new team, Demand and Delivery, has been created as a dedicated project team. The Demand and Delivery team work on specific programme initiatives such as Network Evolution, Innovation, Enterprise IT, and new Cloud based initiatives to support the "cloud first principle". Having this as a separate team will enable the rest of the function to deliver business as usual security without being stretched into project work.

As per the end of RY19/20, the cost centre's organisational structure is as follows:





**Figure 9: Security cost centre organisational structure**

An approximate mapping from the previous structure is set out in the table below.

Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Description
<b>CISO Office</b>	CISO Office	Consists of the CISO and Director of Security which oversee the strategic direction of the function whilst remaining accountable for delivery.
<b>Information Assurance</b>	Security Governance Risk and Compliance	GRC ensures that DCC remains compliant with the latest Information security policies, the regulatory codes and manages security risk. They work to train DCC colleagues and raise awareness in security culture.
<b>Security Advisory</b>	Security Business Partners	Creates the security architecture for internal IT and external customer-facing environments and liaises with operational teams such as the SOC and Service Centre.
<b>Security Architecture</b>	Demand and Delivery (including security architecture)	This team covers project and programme assurance along with architectural designs for secure operation and development.
<b>Security Operations</b>	Operations cost centre (now the SOC)	It was decided that the security operations team would drive greater organisational benefit being in the operations function of DCC.

## 7.2 Cost Centre Variances

### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format, i.e. mapping costs directly against the price control General Ledger codes (GLs). Non-payroll costs are explained in a subsequent section.

**Table 1: Variance from the RIGs by GL**

Baseline (£m)			RY19/20	RY20/21	RY21/22
<b>Total Security</b>			<b>2.210</b>	<b>1.529</b>	<b>0.846</b>
Incurred (£m)			RY19/20	RY20/21	RY21/22
<b>Total Security</b>			<b>3.003</b>	<b>2.032</b>	<b>1.623</b>
Variance (£m)			RY19/20	RY20/21	RY21/22
<b>Total Security</b>			<b>0.792</b>	<b>0.503</b>	<b>0.777</b>
Payroll costs	PR	£m	0.406	0.293	0.672
Non-payroll costs	NP	£m	(0.006)	(0.032)	(0.014)
Recruitment	RC	£m	0.011	0.021	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.270	0.222	0.119
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.111	-	-

Office Sundry	OS	£m	0.000	-	-
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### Variance by Sub-Team

The table below shows the payroll variance by sub-team. In RY19/20, the CISO office and Demand and Delivery teams showed material variances that exceed the threshold of £0.15m. In the forecast, CISO Office shows a material variance during 20/21 and both the CISO Office and Security Governance Risk and Compliance show material variances for RY21/22. The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 2: Variance from the RIGs by sub-team**

Security Payroll Costs	RY19/20	RY20/21	RY21/22
<b>Variance</b>	<b>0.406</b>	<b>0.293</b>	<b>0.672</b>
Business Resilience	-	-	(0.125)
CISO Office	0.161	0.232	0.460
Demand and Delivery	0.255	(0.037)	0.069
People team	-	-	(0.044)
Security - Architecture	-	-	(0.069)
Security Business Partners	0.116	0.123	0.058
Security Culture and Awareness	0.012	0.039	0.085
Security Governance Risk and Compliance	(0.137)	(0.065)	0.239

## 7.3 Payroll Variance

The primary drivers of the variance within the function are the CISO Office and Demand and Delivery teams. The additional resource was needed to move DCC to a threat-led security model. This required the introduction of a new CISO to help lead the function into a new era and the creation of a new demand and delivery team to deliver several new initiatives such as ECoS, Network Evolution, Customer Relationship Management and Monitoring and Reporting, all of which are critical to DCC's success. Up until the transformation, programme work superseded business-as-usual resources in the team which made compliance activities impossible to deliver. The new structure ring-fences business-as-usual and ensures programme requirements are fully met and can easily be scaled down once programme demand has abated.

### 7.3.1 CISO Office

The CISO Office consists of the CISO and the Director of Security. The role of the CISO Office is to:

- Oversee the strategic direction of the security function.
- Represent the security team at the Executive Committee meetings.
- Assure the work of individual teams.
- Manage external relationships with key stakeholders.
- Ensure close liaison with all other DCC functional areas as security is pervasive and cannot exist in a siloed organisation.
- Promote security.
- Sits on external groups such as SSC and NCSC SMIE.

#### Activities driving change in resource in RY19/20

The cause of the variation for the RY19/20 and projected years is the recruitment of a new CISO and the addition of a Director of Security role to the CISO office. Security is one of the critical functions to ensure the continued success of DCC. Having the right team to drive DCC's security culture and operating environment is important and demonstrates this commitment to our stakeholders.

In November 2019, we completed the recruitment of a new CISO. This hire was completed after a competitive recruitment process. The skills and experience of the CISO represented value for money

and should help DCC mature its security function. To further facilitate efficiency the CISO has the responsibility for Network Evolution and Enterprise IT programmes.

It was also decided that the Interim CISO should remain within the CISO office as a Director of Security to ensure DCC maintains its relationships with external security partners and customers, continues leadership in areas of governance, risk, compliance and culture, whilst also providing essential operational support to the CISO on an ongoing basis as the function grows. It was also important to ensure that the security knowledge and expertise remained within DCC and that there was additional leadership within the team as the security function grew with the restructure. The Director role helped in smoothing over transition and enabled the incoming CISO to operate at a strategic and executive level.

#### **Activities driving change in resource in RY20/21 and 21/22**

These above changes are permanent and have therefore resulted in a variance for RY20/21 and RY21/22. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### **7.3.2 Demand and Delivery**

The Demand and Delivery team has overarching responsibility for security architecture and assurance of the security elements of project and programme deliverables related to internal and external customer-facing services. Its duties include:

- Resourcing project assurance demands to facilitate supplier assurance, security requirements for RFP and contractual purposes, delivery on requirements ahead of go-live and post-go-live assurance.
- Ensuring that DCC architectural rules are followed for security and that these meet the requirements of the SEC and REC as well as reducing the appetite for risk within the business.
- Providing ad-hoc support for small projects requiring artefacts such as DPIAs, risks assessments or general security guidance.
- Maintaining a consistent security approach across all new activity and with all new suppliers that are onboarded.

#### **Activities driving change in resource in RY19/20**

The restructuring of the security function saw the creation of Demand and Delivery as a new team which incorporated Security Architecture. To ensure that the new team could meet its extended scope of project and programme assurance, along with architectural designs, we hired a Security Advisor and Security Designer to develop solutions for the new model of operation. This includes implementing our new Cyber Security Framework and introducing new processes and policies.

During 2018, DCC had an audit to test our security capability and functions. The results of the audit drove two projects: Enterprise IT, Enterprise Security; and the restructure of the Security function. Enterprise IT is a project to enable DCC to gain control over its IT from Capita. This is in line with our regulatory obligations to best protect DCC and the smart metering network and to avoid preferential treatment to Capita. To deliver this, an Enterprise Security Architect and a Project Assurance Security Specialist was required.

The Enterprise Security Specialist was also utilised on the Enterprise Security Project which updated DCC's security operations capabilities. This has subsequently moved to the Operations function. The Enterprise Security Project also required an Enterprise IT Architect to perform a business analyst role.

The opening of Brabazon house, DCC's Manchester office and test lab facility, also drove change in the team. As a site of strategic national infrastructure, it is important that the office was of the highest security standard. The Project Assurance Security Specialist mentioned above was also involved in helping define the security standards of the office.

Within Brabazon house, there are innovation labs to serve suppliers and other SEC parties by providing a safe and sandbox style environment for the trial of innovative concepts and products. This required a Project Assurance Security Specialist to ensure the labs are secure.

The second Project Assurance Security Specialist also played a role in delivering CRM which involves improving the onboarding process for customers and SEC parties and building the customer engagement portal.

### 7.3.3 Security governance risk and compliance

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team is identical to the forecast in RY20/21, as we expect to continue to require this resource on an enduring basis. The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 7.4 Drivers for Variance – Non-Resource

### 7.4.1 Summary

Security is showing an immaterial variance in incurred costs for IT Services this year. However, it is showing a material variance for External Services. While the procurement of Ruddington - Security Solution is the largest variance here, no single procurement is over the materiality threshold of £0.15 million. A breakdown of the costs and variances is provided in the table below.

**Table 3: Material variance for External Services and IT Services in Security**

Incurred (£m)		RY 19/20	RY 20/21	RY 21/22
Total Incurred External Services		0.493	0.450	0.319
Total Incurred IT Services		0.111	-	-
Variance (£m)		RY 19/20	RY 20/21	RY 21/22
Total Variance External Services		0.270	0.222	0.119
Total Variance IT Services		0.111	-	-
GL	Variance Detail (£m)	RY 19/20	RY 20/21	RY 21/22
ES	Audit/assurance	0.064	-0.008	0.229
ES	Other	-0.008	-	-
ES	People	-	-	-0.200
ES	Security consultancy	-	0.215	0.075
ES	Security Incident Management	0.044	-	-
ES	Testing	0.006	0.015	0.015
ES	Ruddington - Security Solution	0.146	-	-
ES	Manchester - Security Solution	0.011	-	-
IT	Cyber intelligence	0.111	-	-

## 8 Service Delivery (Programme) Cost Centre

### 8.1 Purpose, Scope and Structure

#### 8.1.1 Purpose

The Service Delivery function comprises programme leadership, which is accountable for programme delivery, and professional practices of Business Analysis, Test Assurance, and Programme and Project Management that support delivery of the change portfolio for Smart DCC. The function works closely with the professional practices based in other DCC functions such as Security, Service Design & Transition and Design Architecture. Programme delivery is underpinned by a Programme Management Office, which provides independent delivery assurance to each change programme, and a Portfolio

Office which provides governance and insight to support planning and resourcing decisions across the change portfolio.

### 8.1.2 Scope

During RY19/20, there was an organisational restructure. The CTO function retained accountability for Strategy and Vision, but execution of technology projects and programmes moved to the Operations and Service Delivery functions.

This restructure was carried out in order to clarify focus within the CTO, Operations and Service Delivery functions. Service Delivery now has the focus and the necessary accountable resource to concentrate on major industry programmes and delivery of change. Operations now has the focus and the necessary accountable resource to concentrate on operation of the core systems, qualified DCC users and in-life product changes on a broadly 0 to 2-year horizon. CTO has been refocused to concentrate on the future technology landscape of the DCC, on a broadly 2 to 15+ year horizon.

As a result of this organisational restructure the Business Analysis and Test Assurance practices transferred into the Service Delivery function. This transfer significantly increased the functional headcount, almost doubling its size. Our internal delivery capability comprises:

- Programme Directors practice.
- Portfolio Office.
- Programme Management Office (PMO).
- Business Analysis practice.
- Programme and Project Management practice including project support.
- Test Assurance practice.

#### Contribution to DCC strategy

The Service Delivery function provides much of the capability and expertise to deliver the complex change portfolio for Smart DCC through its highly skilled and capable delivery professionals across programme leadership, programme and project management, business analysis and Test Assurance.

Across the whole change portfolio, the Portfolio Office and PMO assures the operation of fit for purpose governance, aligned with DCC's Change Delivery Methodology (CDM). Collectively, this governance and assurance framework enables DCC to deliver multiple concurrent programmes of work in a consistent and well-controlled manner with appropriate flexibility to respond to business needs.

#### Key events and objectives driving activity and cost

The main deliverables worked on over the course of RY19/20 included the delivery of:

- Establishing the new practice structure.
- Project management standards parts 1 and 2 embedded.
- Level 1 Assurance, Part 1 (PMO assurance of CDM and PM Handbook Part 1) embedded.
- Level 2 Assurance Framework (periodic project health checks) – designed & developed.
- Successfully deliver DCC's inventory of Programmes (including SMETS 1, Switching etc.)
- Change Delivery Management (CDM) – Embedded.
- Integrated Planning & Resourcing – Embedded.
- Portfolio Reporting & Insight – Designed, Developed & Deployed.
- PMP capability assessed against a new Target Capability Matrix and improvement plan developed.
- PMP capability development plan phase 1 implemented.

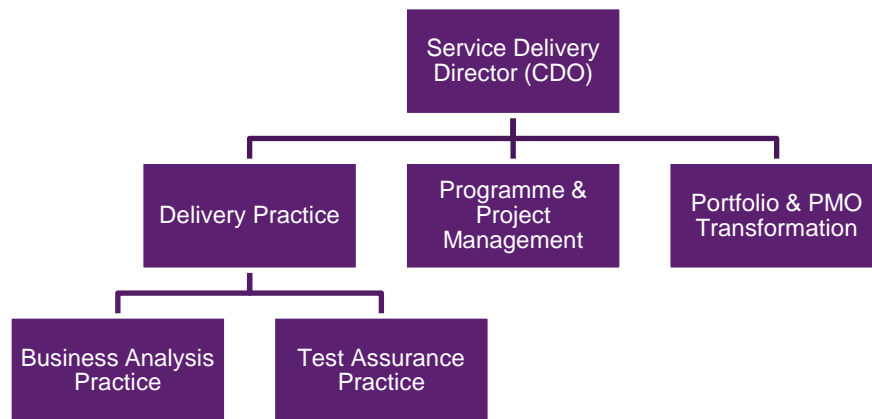
### 8.1.3 Service Delivery Cost Centre Structure

During RY19/20, as a result of an organisational restructure, the Business Analysis and Test Assurance practices transferred into the function. This transfer significantly increased the headcount within the function and importantly provided the opportunity to establish a delivery practice across business

analysis, test assurance and programme and project management. The ambition being to create a delivery practice that operates on consultancy model principles to support a flexible portfolio of delivery that enables the realisation of DCC's strategy.

During RY19/20, the cost centre's organisational structure was as follows:

**Figure 10 – Cost centre organisational structure RY19/20**



The table below provides the overview of the major structural changes to the Service Delivery cost centre during RY19/20 and a description of the teams within the structure.

Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Description
Programme Directors	Programme & Project Management Practice (PMP)	<u>Programme Directors</u> Comprised of Programme Directors, who are part of the Service Delivery senior leadership team (SLT) and report into the Chief Delivery Officer (some via the Enterprise Delivery Director). Each Programme Director is accountable for the successful delivery of their assigned programmes of work.
Programme & Project Management Practice (PMP)		<u>Programme and Project Management Practice</u> Comprised of Head of Practice, Programme and Project Managers and project delivery support, the practice delivers an internal consultancy of professional programme and project management services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.
Programme Management Office (PMO Transformation)	Portfolio & PMO Transformation	<u>Portfolio Office</u> Comprised of a Head of Portfolio Transformation, PO Managers, Senior Analysts and Administrators. It is accountable for the Change Delivery Methodology (CDM), mandated for all projects and programmes. In addition, it has accountability it provides the controls and facilitates the governance of the overarching portfolio of change across DCC by enabling the approval, planning and sequencing of change based on an integrated view of change demand, resource supply, delivery plans and insight across all delivery. The Portfolio Office is accountable for designing the portfolio-level processes, tools and templates required to support successful change delivery.
Portfolio Office		<u>Programme Management Office (PMO)</u> Comprised of PMO Managers, Senior Analysts and Analyst role, delivering PMO capability, independent assurance, support and advice to the Programme Directors and the Project Management Practice to support successful change



Sub Team structure reported in RY18/19	Current Sub-team RY19/20	Description
		delivery. Ensures consistent programme set up and processes and assures change delivery through education of the mandated standards to support effective embedding and validation of adherence to the CDM by each programme and undertaking of Programme Health checks.
-	Business Analysis Practice	Moved to <b>Service Delivery (Programme)</b> from <b>Design &amp; Assurance</b> as part of September 2019 restructure.  Comprised of Head of Practice, Senior Business Analysts and Business Analysts, the practice delivers an internal consultancy of professional business analysis services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.
-	Test Assurance Practice	Moved to <b>Service Delivery (Programme)</b> from <b>Design &amp; Assurance</b> as part of September 2019 restructure.  Comprised of Head of Practice, Test Assurance and Test Governance professionals at Manager, Lead and Analyst levels, the practice delivers an internal consultancy of professional test assurance services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery. The practice engages closely with DCC stakeholder governance groups to obtain the feedback and decisions to ensure testing of changes to DCC's systems and services are robust and assures the testing of DCC's service providers.

## 8.2 Cost Centre Variances

### 8.2.1 Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format below i.e. mapping costs directly against the price control General Ledger codes (GLs). Non-payroll costs are explained within a subsequent chapter. Payroll and Recruitment are justified within the next section.

The table below shows a payroll variance of £1,434,000.

**Table 1: Variance from the RIGs by GL**

	(£m)			RY19/20	RY20/21	RY21/22
<b>Baseline</b>	<b>Total Programme</b>			<b>11.173</b>	<b>9.239</b>	<b>0.330</b>
<b>Incurred</b>	<b>Total Programme</b>			<b>11.035</b>	<b>11.540</b>	<b>12.467</b>
<b>Variance</b>	<b>Total Programme</b>			<b>(0.139)</b>	<b>2.301</b>	<b>12.137</b>
	Payroll costs	PR	£m	1.434	2.396	8.332
	Non-payroll costs	NP	£m	(0.087)	0.076	0.453
	Recruitment	RC	£m	(0.071)	0.071	-
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	(0.938)	0.120	(0.139)
	Internal services	IS	£m	0.039	(0.056)	(0.130)
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	(0.516)	(0.306)	3.621
	Office Sundry	OS	£m	-	-	-



## 8.2.2 Variance by Sub-Team

The table below shows the payroll variance by sub-team.

In RY19/20, the Business Analysis Practice and Test Assurance Practice teams showed material variances that exceed the threshold of £0.15m. In the forecast, both teams show a material variance for RY20/21 and RY21/22. In addition, Portfolio and PMO Transformation, Programme and Project Management and Service Delivery Office teams show a material variance for RY21/22.

The activities and events that are the primary drivers behind these variances are elaborated on in the following team sections.

**Table 2: Variance Cost by Sub-team**

Programme Payroll Costs	RY19/20	RY20/21	RY21/22
Variance	<b>1.434</b>	<b>2.396</b>	<b>8.332</b>
Business Analysis Practice	0.660	0.750	0.602
Portfolio and PMO Transformation	(0.228)	(0.033)	1.908
Programme and Project Management	(0.001)	(0.212)	3.399
Service Delivery Office	0.045	0.011	0.319
Test Assurance Practice	0.958	1.880	2.104

## 8.3 Drivers for Variance – Resource

The primary drivers of resource within the function are the Business Analysis Practice and Test Assurance Practice. Both teams moved to the **Service Delivery (Programme)** cost centre from **Design and Assurance** cost centre as part of September 2019 restructure.

Additional resource was needed to meet the increased demand in:

- New Business Analysis demand in:
  - Switching Operational Readiness and Switching DBT
  - Tactical and Enduring ELS
  - EIT
  - Digitising On-boarding (the project changed course and was re-planned several times)
  - Customer Portal
  - New Communications Hub Order Management System
- Network Evolution programme – this was not included in 2019/20 budget as the programme was set up late 2019/early 2020

### 8.3.1 Business Analysis Practice

Comprised of Head of Practice, Senior Business Analysts and Business Analysts, the practice delivers an internal consultancy of professional business analysis services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.

During 2019/20 the Practice has continued to focus on resourcing activity predominantly to ensure the right capability exists across the key projects and programmes, in addition to driving capability in the requirements capture stage through the initial stages of the Change Delivery Methodology. This involves a closer alignment with Design and Test Assurance for improved traceability through the lifecycle of a project.

#### Activities driving change in resource in RY19/20

Network Evolution (previously Next Generation) Portfolio – This was not included in the 2019/20 budget as the programme was set up late 2019/early 2020.

- New Business Analysis demand in:
  - Switching Operational Readiness and Switching DBT

- Tactical and Enduring ELS
- EIT
- Digitising On-boarding (the project changed course and was re-planned several times)
- Customer Portal
- New Communications Hub Order Management System
- Set up of the In-Life Change and SEC Releases BA team including Innovation Team

### **Activities driving change in resource in RY20/21 and RY21/22**

Activity levels are currently expected to remain relatively constant until further detail of future projects and programmes are approved.

- SMETS1 FOC
- Network Evolution
  - Comms Hub & Network Programme B
  - DSP Procurement
  - Test Automation
- Switching Re-plan (Ofgem requested)
- Enterprise Transformation Portfolio
  - Enterprise Resource Planning (ERP)
  - Price Control Automation Tool (PCAT)
  - Enterprise IT (EIT)
  - Digitising On-boarding
  - Customer Portal
  - New Communications Hub Order Management System
  - Production Proving

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## **8.3.2 Test Assurance Practice**

Comprised of Head of Practice, Test Assurance and Test Governance professionals at Manager, Lead and Analyst levels, the practice delivers an internal consultancy of professional test assurance services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.

The practice engages closely with DCC stakeholder governance groups to obtain the feedback and decisions to ensure testing of changes to DCC's systems and services are robust and assures the testing of DCC's service providers.

### **Activities driving change in resource in RY19/20**

During 2019/20 the Practice has continued to replace contractor resource with highly experienced and capable permanent recruits to focus on retention of technical knowledge which should see more effectively delivery on new projects and programmes.

### **Activities driving change in resource in RY20/21 and RY21/22**

Activity levels are currently expected to remain relatively constant until further detail of future projects and programmes are approved. Currently there are 30 enduring roles due to be continuing into RY21/22.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 8.3.3 Portfolio and PMO Transformation

#### PMO

Comprises PMO Managers, Senior Analysts and Analyst role, delivering PMO capability, independent assurance, support and advice to the Programme Directors and the Project Management Practice to support successful change delivery. Ensures consistent programme set up and processes and assures change delivery through education of the mandated standards to support effective embedding and validation of adherence to the CDM by each programme and undertaking of Programme Health checks.

#### Portfolio Office

Comprises a Head of Portfolio Transformation, PO Managers, Senior Analysts and Administrators. It is accountable for the Change Delivery Methodology (CDM), mandated for all projects and programmes.

In addition, it provides the controls and facilitates the governance of the overarching portfolio of change across DCC by enabling the approval, planning and sequencing of change based on an integrated view of change demand, resource supply, delivery plans and insight across all delivery. The Portfolio Office is accountable for designing the portfolio-level processes, tools and templates required to support successful change delivery.

During 2019/20 the Portfolio Office implemented a demand management tool (Clarity) to drive effective monitoring and planning of resources across the portfolio, which will allow greater accuracy for future business planning activity. In addition, it has enhanced the CDM through greater levels of explanation and training to ensure improved adherence to the standards and assurance.

#### Activities driving change in resource in RY21/22

Activity levels are currently expected to remain relatively constant until further detail of future projects and programmes are approved. Many roles are enduring including several PMO Managers, Analysts and Administrators.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 8.3.4 Programme and Project Management

Comprised of Head of Practice, Programme and Project Managers and project delivery support, the practice delivers an internal consultancy of professional programme and project management services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.

During 2019/20 the Practice was newly formed, with a Head of Practice recruited and the initial phases completed of building a discipline specific community. The next year will see greater definition of the roles and significantly focus on key areas such as the adherence to CDM, operating of the Supplier Management process and improved demand planning, particularly in relation to resource allocation.

#### Activities driving change in resource in RY21/22

Activity levels are currently expected to remain relatively constant, dropping in RY20/21 and rising again in RY21/22, until further detail of future projects and programmes are approved. Many roles are enduring including several Programme Directors, Programme Managers and Project Managers.

The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

### 8.3.5 Service Delivery Office

#### Activities driving change in resource in RY21/22

The resource forecast for this sub-team is identical to the forecast in RY20/21, as we expect to continue to require this resource, including the Service Delivery Director, on an enduring basis. The variance

increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

## 8.4 Drivers for Variance – Non-Resource

### 8.4.1 Summary

There were several procurements within Service Delivery (Programme), two of which had material variance, i.e. over £0.15million). The breakdown is provided below.

**Table 3: Material variance for External Services in Service Delivery (Programme)**

	Incurring (£m)	RY 19/20	RY 20/21	RY 21/22
	Total Incurred External Services	0.094	0.260	0.061
	Total Incurred IT Services	3.734	3.484	3.621
	Variance (£m)	RY 19/20	RY 20/21	RY 21/22
	Total Variance External Services	-0.938	0.120	-0.139
	Total Variance IT Services	-0.516	-0.306	3.621
GL	Variance	RY 19/20	RY 20/21	RY 21/22
ES	Resource management	0.168	0.020	-
IT	BIMI CR1014	0.273	-	-

### 8.4.2 Resource management (ES)

#### Driver for the Procurement

Integrated Planning and Resource Management capabilities did not exist within DCC which hindered our ability to deliver projects to the time, cost and quality targets.

#### Problem Statements

Successful programme plans are based on an expectation that the required resources will be available when needed. Improving the resource management governance, process and data can support and improve the performance across projects and/or BAU activities.

Efficiencies can be increased by optimising the visibility of what proportion of someone's time is being spent on a particular project or BAU activity. This can reduce instances where resource supply exceeds demand (or delivery issues where demand exceeds supply).

Similarly, we are not always able to optimise the level of permanent vs contract or third-party resources that we use. Planning well in advance rather than making resourcing decisions reactively at the last minute will improve this situation.

High level plans are manually generated to aid stakeholder engagement and decision making. While useful, the overall process could be improved by ensuring they are consistent with each other to aid easy integration, are quicker to produce and better align with more detailed underlying plans.

#### Objectives

To deliver an Integrated Planning and Resource Management capability, including processes and tools that enable the following:

- A regularly updated, forward view of total resource supply and demand across the portfolio to give advanced visibility of where supply exceeds demand or vice versa.
- Robust resource management processes and governance that use this information to drive actions e.g. to smooth demand by re-planning, re-sequencing, accelerating or delaying one

or more projects, or to alter supply through adjusting recruitment or contracting. Programme plans are based on an expectation that the resources they require will be available when they need them – however this is not always the case, which can lead to delays or other delivery issues. Business Planning provides an initial view, but a regularly updated, forward view of total supply and demand over time across the portfolio is required to provide advanced visibility of where supply exceeds demand. This will enable actions to be taken e.g. smooth demand by re-planning, re-sequencing or delaying one or more projects, or alter supply by recruiting or extending / cancelling contracts.

- A retrospective comparison of forecast resource demand versus actual supply (via time-sheeting) to support proactive optimisation of resource utilisation and improved forecasting.
- An Integrated Planning capability to facilitate decision-making by providing visibility of planning contention, dependencies and synergies.
- Support business planning and reporting including integrating systems / data with finance and HR to ensure a single source of truth and to minimise manual processing. The ability to quickly and easily produce high level plans that can be merged with other programme plans, updated automatically in order to facilitate engagement and value-add conversations – whilst reducing the effort spent on low-value, manual activity.

### Benefits

The benefits include:

- More projects delivered on time, and in budget, as they will be initiated, planned and managed based on a more accurate view of resource availability and cross-programme dependencies
- A reduction in overall resource costs because forecasts of future resource demand and capacity will enable high utilisation and more judicious use of permanent vs contractor resources.
- Better value from existing PM and Portfolio Office resources by enabling a shift from low value administrative tasks (such as creating plans on a page) to high value tasks such as using integrated plans to proactively identify and manage risks and dependencies.
- Reduction in effort required during annual Business Planning cycle as resource forecasts will be in place and greater confidence in these forecasts as they will be being tracked against actuals (timesheets).
- More accurate long-term business planning by enabling the comparison of historically similar projects to obtain benchmarks for the typical duration and resource profile of different types / scale of project. This ability will improve over time as sample size grows.

In addition, the tool will provide a foundation platform for the future as it will span the breadth of Portfolio and Project Management / PMO activities (whereas the incumbent tool is specifically a Project Planning tool). Appropriate attention has been paid to potential future requirements based on the Portfolio Office and PMO roadmap and ensuring the selected tool will accommodate these future requirements.

Subject to a separate Business Case, provision has been made in the Service Delivery Business Plan for further future development to support Change Delivery Methodology and Project Finances.

### Securing Value for Money

Three options were identified to address the objectives above:

- **Option 1** - Utilise existing tools plus additional tools to address currently unfulfilled requirements,
- **Option 2** - Purchase a complete replacement PPM tool which addresses all requirements including time sheeting,
- **Option 3** - Purchase a complete replacement PPM tool which addresses all requirements, excluding time sheeting. In this case time sheeting would be delivered via existing Capita tools.

Following analysis, it was found that **Option 3** provided the greatest cost / benefit, in particular noting:

- Option 1 proved significantly more expensive, given the need to pay for multiple tools as well as implement integrations between these tools.

- That time sheeting is provided at no additional cost to Smart DCC from Capita, whereas in all other options, as a minimum, licences would need to be purchased for an extended number of users which would not otherwise require access to any new tool. This quickly eliminated Option 2.

Procurement was carried out as a competitive procurement, balancing the ability to meet requirements and costs. As this is not a capability of existing DCC vendors, market analysis was carried out resulting in 4 products to evaluate, all from the [REDACTED]. These were: [REDACTED].

With the first two of these being shortlisted post detailed workshops, demonstrations and proposals from each vendor.

**Table 4: Procurement Evaluation Breakdown**

Procurement – Resource Management Implementation Professional Services		
Number of Bids received	4	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	Costs of the final two bidders was broadly similar however ability to meet requirements proved significantly better with the selected product / vendor	
Challenge by DCC for Implementation Professional Services (excluding annual license costs)	Initial Price	BAFO
	[REDACTED]	[REDACTED]

### Licences

The purchasing of licences for required users is necessary in all scenarios. Option 3 also limited the user base and therefore number of licences to the lowest level. Option 1 would have required licences for multiple tools, whilst Option 2 would have required licences for all affected DCC staff. Option 3 limits licences to Project Management and PMO communities and team Resource Managers, and a few subsidiary users (such as Finance).

Having selected the option with most effective licensing the cost of licences had only arbitrary differences between products and therefore this was a considered, but not a deciding factor, of the chosen product. The cost of licences is variable as the number of DCC users' changes. It is expected that the number of users will decline by circa 10% per annum. However, future DCC strategic plans will ultimately determine this (i.e. volume of concurrent projects). Current licences provision is [REDACTED] for RY20/21. The entry in table 3 includes licence costs.

### 8.4.3 BIMI CR1014 (IT)

This is expected continuing spend from BIMI CR1014 which was justified last year in the DCC Price Control submission for RY18/19.

[REDACT] provides a business information management tool, called BIMI. The BIMI team is a Relevant Service Provider, and therefore is on a long-term contract with DCC.

CR1014 facilitates the establishment of the Technical Operating Centre's (TOC) 'Monitoring and Alerting – Strategic' project. This scope of this work was originally approved in the RY17/18 Business plan for the approval of creating TOC and all the supporting business elements and functions needed to establish a fully operational TOC.

The procurement steps followed are included in the table below.



**Table 5: Change process followed for BIMl CR1014**

Activity	Notes / Evidence	Date
<b>SQL Production Server Change Request Issued</b>	File: CR1014 – Provision of SQL Production Server	9 September 2018
<b>CR1014 Impact Assessment</b>	File: CR1014 BIMl Final Impact Assessment	October 2018
<b>DCC Change Authorisation Note</b>	File: CAN for BIMl CR1014 for DCC V1.0	December 2018

## 9 Shared Services Charge

### Background

A corporate overhead is charged by Capita to DCC for the supply of central services. As part of the Licence Application Business Plan (LABP), Capita proposed to charge 9.5% on internal costs on an annual basis. This was accepted by [REDACTED] as part of Capita's successful bid for the course of the licence term.

Nevertheless, DCC commissioned [REDACTED] in 2016 to review the Shared Service Charge. This review benchmarked the cost of the services provided by Capita against those available in the market. At the time the review found that overall, the cost of services would increase if DCC were to source them independently of Capita.

There have been several changes both to the provision of services and resourcing levels since the LABP submission. Over time, the challenges of delivering the core DCC services, expansion of other mandatory work and DCC's own business needs have resulted in an increase in DCC headcount. DCC recognises that the overhead charge is calculated as a percentage of internal costs, and the growth in headcount has resulted in an increase in overhead payments to Capita.

Although the shared service charge is stipulated within the LABP for the duration of Capita's contract, in response to Ofgem's and customers' concerns around the level of the Shared Service Charge, DCC has again agreed to undertake a review and discuss potential alternative arrangements with Capita.

### Review

The contracts for Shared Services are a part of the licence agreement and therefore, ultimately, it would be for Capita to agree to any change. To help inform discussions, DCC undertook development of possible alternative arrangements by developing a range of options.

At a high level the options can be categorised as follows:

- change of the current percentage rate,
- switch the current percentage for a fixed sum, and
- a combination of a fixed sum and a new percentage rate.

Each option was accompanied by a high-level assessment of the potential cost to the end of the licence period. To understand the significance of any cost reduction, the models were compared to forecast costs under the current arrangements. Additionally, the options were assessed for ease of implementation. Some options only delivered comparable costs overall, whilst others would be more complicated to implement but could potentially introduce greater cost reduction. A candidate option was not immediately apparent and therefore, more detailed analysis and modelling is required.

Capita is currently reviewing the Shared Service Charge to develop a proposal for internal discussion and potentially approval [REDACTED].