Data Communications Company

Smart DCC Ltd

Annual Report

including the Regulatory Financial Statements for the year ended 31 March 2016

DCC Public

Contents

Chairman's statement

I am delighted to present the Data and Communications Company's third Annual Report. Substantial progress has been made over the last year with establishing the common data and communications infrastructure to support the mass roll out of smart meters, despite some challenging conditions at times. I remain hugely impressed by the ability, focus and sheer determination of the DCC team to drive the programme forward and take pragmatic decisions to deliver its commitments.

On behalf of the Board, I wish to thank our outstanding Managing Director, Jonathan Simcock, our staff and our Service Providers for their hard work and dedication over these last 12 months. I must also thank my Board colleagues for their commitment to this significant and ground breaking infrastructure programme.

Delivery on the ground has advanced well with some significant progress being made. This progress has been achieved in parallel with the successful re-setting of the programme onto a more sustainable and resilient plan supported by a pragmatic and responsive delivery strategy. Given the scale of change that we have had to accommodate along with the particular demands placed on the programme, it is a tribute to all those involved that we achieved so much in the year.

However, it is the year ahead that will demonstrate the success of our collective efforts as we transition from development to operation and build towards supporting the mass installation and adoption of smart meters across Great Britain in the immediate years going forward to 2020.

A programme as bold and ambitious as DCC's is, of course, demanding but I am re-assured and grateful for the spirit of collaboration shown by our colleagues in industry, Government and our regulator, Ofgem. It is also very encouraging to see political confidence in the wider smart metering programme.

I and my Board colleagues recognise significant challenges lie ahead and that there are more hurdles for us and our delivery partners to clear, the scale of which should not be diminished. However, with our growing organisational maturity, hard won experience and the right capability in place, I believe DCC is well positioned to be a success.

Richard McCarthy CBE
Chairman

29 June 2016

Managing Director's statement

My leadership team and I are immensely proud to be at the heart of one of the largest infrastructure projects in a generation. A project of the scale and complexity of establishing Great Britain's smart metering data and communications network, the biggest change to the energy sector since privatisation, is not without its challenges but 2015/16 proved to be a significant year for DCC.

Working with our team of Service Providers, we made considerable progress this year with the design and build of the core systems. We began on time the process of integrating these systems into a coherent service, which was a significant milestone. We successfully re-set the programme onto a more sustainable plan. The impact of aligning to a stable set of technical requirements introduced a significant number of change requests and these have resulted in a necessary increase in costs of £139m. These additional costs will be recovered over a number of years through our future service charges.

Many live services were delivered throughout the year including the Smart Metering Key Infrastructure service, the cornerstone of end-to-end security, and we continued to work closely with the energy industry and our Service Providers to develop operational processes in preparation for live operations.

DCC is on track to deliver the live infrastructure to enable energy suppliers to install and operate smart meters on its network in 2016. I recognise that risks and uncertainties remain as we transition into live operations but I am confident that we are well placed to deliver a high-quality service that meets the needs and aspirations of the energy industry and ultimately every one of us.

This will be a landmark in the digitisation of Great Britain's infrastructure.

Jonathan Simcock
Managing Director

29 June 2016

Strategic report

Who we are and how we operate

The Government's vision is for every home in Great Britain to have a smart energy meter. To achieve this the Department of Energy and Climate Change (DECC) has created the Smart Metering Implementation Programme (SMIP), which calls on the energy suppliers to lead the roll-out of an estimated 50 million smart electricity and gas meters to domestic and small non-domestic properties in Great Britain by 2020.

Smart DCC's (DCC) role is to provide the end-to-end service between the smart meter in the home and the energy suppliers. We are achieving this by designing, building and operating the shared data management systems and communications network necessary to deliver a reliable, secure and fair environment for the energy industry to work with. This is being done through contracts with our Service Providers: the Data Service Provider (DSP) CGI, our Communication Service Providers (CSPs) Arqiva and Telefónica, and other providers of critical services.

We operate under the Smart Meter Communication Licence, granted to us by the Secretary of State for Energy and Climate Change on 23 September 2013. We are regulated by Ofgem to ensure that we deliver services in accordance with our Licence obligations, with a particular focus on achieving milestones and controlling costs. This is a critical business relationship and consequently we meet Ofgem regularly and welcome their input to ensure we meet our goal of providing value for money for the consumer.

Achievements in the year to March 2016

We have made considerable progress with the design, build and testing of the DCC solution over the course of the year. We progressed Systems Integration Testing for Release 1.0 and successfully implemented a number of systems and services, including connecting real meters to the DCC User Interface. The network roll out by the CSPs is also progressing well, with contractual milestones being met. More services have transitioned from development into live operations including the Smart Metering Key Infrastructure (SMKI) service in March 2016, marking achievement of the most fundamental milestone in the programme so far.

Revising the delivery plan

Since March 2015, the energy industry has been collectively working towards a "central planning assumption" of August 2016. This is the month in which DCC and industry systems will come together to enable the installation and commission of SMETS2 meters on the DCC network. DECC had determined that the plan to deliver live DCC services to support an August central planning assumption would be accompanied by a contingency framework. This is appropriate to a programme of this size and complexity and would offer planning stability and help stakeholders manage risks emerging from the design, build and test of the DCC network.

During the year, DCC responded to a number of significant changes to its requirements;

- Following the release of GBCS v0.8.1, 59 high priority Issue Resolution Proposals (IRPs) were identified as necessary to move to GBCS v0.8.2. These IRPs required reworking of core code within DCC systems.
- DCC also issued a number of high priority contract changes to meet the requirements of the Smart Energy Code (SEC) and to efficiently operate the service. They affect security, service management and reporting, Communications Hubs and associated supply chain processes, and the testing regime.

DCC carried out a thorough assessment of these changes. DCC concluded that to accommodate these changes within the current plan it would have to draw down some of the contingency that was planned in from March 2015 and deliver full functionality of the DCC system over two live releases, instead of a single release. Following subsequent consultation with industry and direction by the Secretary of State, DCC is still planning to deliver the core functionality by August 2016. This will allow energy suppliers to install and enrol smart meters for credit customers. The second release of functionality (including prepayment services) will be delivered by October 2016. A two releases strategy offers the best overall balance between accelerated timescales, availability of functionality and risk.

Delivery progress

Over the last year we have made valuable progress in designing and building core data systems aligned to GBCS v0.8.1. CSPs have successfully delivered certified Communications Hubs into Systems Integration Testing and Service Users are also able to order prototype Communications Hubs to support their own testing. The interim Communications Hub Order Management System (OMS) went live in October 2015 followed by the enduring OMS's for South and Central Regions going live in February 2016, and for the North Region in April 2016. Our billing system is now live and further development of the system will be made for Releases 1.2 and 1.3.

A major milestone was achieved in March 2016 when the SMKI service went live. SMKI provides the means by which SEC Parties form the basis of trust across the DCC network and is one of the primary mechanisms to secure communications between DCC Service Users and devices. The SMKI service, one of the largest public key infrastructures in the world and the largest in Europe, is provided by BT, while CGI provides the repository where certificates are stored.

A few weeks after the SMKI service went live, the Parse and Correlate software aligned to GBCS v0.8.2 was made available to any organisation requesting it, which is in line with our SEC obligation. The Parsing and Correlation service enables Service Users to convert messages from one format into another within their own systems and ensures that the message has the same meaning after it has been converted.

To support the development of the design baseline, 18 subsidiary documents have been formally designated following their legal incorporation into the SEC. Of these, 16 will be used to assess testing of the DCC solution. We have developed a further 14 documents which have been approved and baselined by the Secretary of State prior to their designation into the SEC.

Integration

In September 2015 we entered Systems Integration Testing for Release 1.0 where DCC, our Service Providers and Registration Data Providers began testing their systems together. This is a crucial period in which multiple systems come together to form a coherent solution. We have increased our test assurance resource and strengthened our integration capability to support these critical activities.

As we expected, given the complexity of the solution, integration has been challenging. We continue to work with our Service Providers to identify and fix defects. However, we have successfully connected real meters to the DCC User Interface. This involves passing messages securely across the Home Area Network, through the Communications Hubs and through the CSP and DSP systems. Once we have completed Systems Integration Testing we will be ready for User Integration Testing when Service Users will be able to test their systems with the DCC.

Network coverage

Work to construct the Smart Metering Wide Area Network across Great Britain by the CSPs is progressing to plan. Both Arqiva and Telefónica delivered 80% coverage, which was required for go live, on 20 April 2016. Arqiva and Telefónica are targeting 99.5% and 90.25% coverage respectively by the end of 2020.

Preparation for live operations

We have been working closely with Service Users and our Service Providers to develop end-to-end operational processes. This work will ensure a seamless experience for Service Users and ultimately for energy consumers.

Our operational process design is based on industry best practice, which has been tailored to meet the needs of the SMIP. We have also made good progress in the build and testing of the Service Management System that supports many of these processes. We have increased our operational resource as we prepare for live operations. Anticipating that we will need to scale the operation to support the smart metering rollout, we have put plans in place to build the capability and capacity required to run an industrial scale business that has to first install and then operate a new nationwide service.

Ofgem's Price Control Assessment

Every year Ofgem carries out a price control assessment. The primary purpose of the assessment is to ensure that we have incurred costs in the previous regulatory year in an economic and efficient manner. Close scrutiny of our costs and associated revenues in this way provides comfort to our stakeholders that they are receiving the best value for money.

In July 2015 we submitted our price control report for the 2014/2015 regulatory year. Ofgem's assessment resulted in £0.4m of unacceptable costs, which represents 1% of the total costs incurred in that year. In addition, all planned milestones were judged to be met and an adjustment to increase the baseline margin by £0.5m was also agreed.

Non-financial key performance indicators

Implementation Milestones

The primary measure of our non-financial performance in any given year is our performance against Implementation Milestones (IMs) which are outlined in our Licence.

Each regulatory year, Ofgem measures our performance against IMs, which can affect the value of the baseline margin earned during the implementation period. Ofgem confirms its assessment as part of the Price Control conclusions, finalised in the year following the year of IM achievement. To date we have achieved all of the applicable IMs. In February 2016, Ofgem determined that we achieved IM7 (Approval of the Service Management System Design) which was the one IM that fell due in the year ended 31 March 2015. This resulted in no reduction to the baseline margin in the year ended 31 March 2015.

In the year ended 31 March 2016, we were required to achieve the following IMs:

- IM8a: Licensee is ready for Systems Integration Testing in the North Region
- IM8b: Licensee is ready for Systems Integration Testing in the Central and South Regions.

In September 2015, we achieved both IM8a and IM8b which was assured by our independent performance auditor.

Following engagement and mutual agreement with DECC we have undertaken a consultation on amending the IMs which are due during regulatory year 2016/17 so as to align them with the new dates for the delivery programme. The consultation was issued on 4 May 2016, and closed on 31 May 2016. Responses are currently being considered and we anticipate a decision will be made in due course. We anticipate that new IMs will be in the Licence by the time Ofgem makes its final decision in relation to our performance for the year ended 31 March 2016.

Our financial performance

Overview

We operate on a £nil profit model where our revenues are exactly equal to our costs. Our charges to Service Users are structured in such a way that we receive funds that are sufficient to cover our anticipated costs for the year, plus a contingent amount, known as the Prudent Estimate. At the end of the year, amounts that we have charged to our Service Users in the year but have not spent are reflected as deferred revenue in our Statement of Financial Position. With this in mind, expenditure is the primary driver of our financial performance.

The way in which our Service Users and other stakeholders get comfort from this arrangement is through Ofgem's annual Price Control Assessment as noted on page 11.

Costs incurred in the year

In 2016 we have recognised costs of £301.1m (2015: 93.9m). 87% of our costs relate to those incurred under contracts with the DSP and the CSPs, which is reflective of the value of work they have completed. Figure 1 shows a breakdown of our costs incurred compared to the prior year.

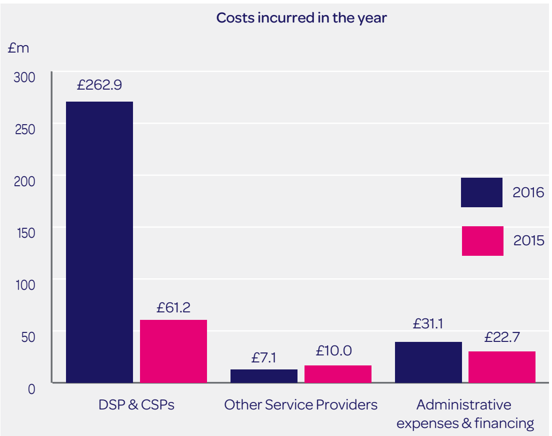

Figure 1

Costs relating to the DSP and the CSPs

Costs we have recognised relating to the contracts with the DSP and the CSPs are reflective of the achievement they have made in completing work against their contractual obligations, and also represent the impact of change on the activities they are carrying out.

During the year the DSP and the CSPs achieved 11 payment milestones, in relation to which we have recognised £115.2m (2015: £53.9m). We will make payments for these milestones over several years as defined in their contracts. Milestones have been recognised initially at their net present value, with a subsequent monthly finance cost calculated at an effective interest rate. This year we have recognised £5.5m (2015: nil) in financing costs for all milestones achieved to date.

Furthermore, the DSP and the CSPs have progressed in their delivery against the additional scope of work required for alignment to the latest version of GBCS and other SEC amendments. In relation to these changes to their original contracts we have recognised £139.2m (2015: nil). The balance of the total DSP and CSP costs is amounts incurred for impact assessments and projects authorised during the year.

As at the 31 March 2016 we have a liability of £243.6m (2015: £53.9m) for future payments to be made to the DSP and CSPs for work they have completed to date. Of this, £38.0m (2015: £3.0m) is due within 12 months of the year end.

Charges from other Service Providers

These charges relate to critical services required for implementation of the SMIP, provided by other key Service Providers. £3.8m (2015: £3.9m) was spent in the year on the set up of the SMKI and the Parse and Correlate services, which were completed in March 2016. Together, these two services will ensure effective and secure communication between Service Users and smart metering devices. A further £2.2m (2015: £1.2m) was spent on the set up of the service desk, development of the billing system and automated testing of GBCS, and £1.1m (2015: £4.7m) was charged from the administrator of the SEC.

Administration expenses

Administration expenses include all operational costs of the organisation. £20.4m (2015: £14.0m) of our expenditure is staff related costs, which has increased as we have resourced at an appropriate level to support the progress towards an operational service and additional activity arising from the implementation of a two-release strategy.

The remainder of our expenses consist of IT spend, accommodation costs, professional fees and the baseline margin. Our baseline margin of £2.9m (2015: £2.9m) is a fixed amount specified in our Licence, adjusted for the outcome of our price control assessment for the 2014/2015 regulatory year.

Comparison to the 2015/2016 charging statement

Charges to Service Users are based on a fixed service charge per meter, set at the beginning of the period in our charging statement. Charges to Service Users for the year must be prudent and sufficient to cover our budgeted costs for the period necessary to ensure we have adequate cash for our operational purposes, which is a Licence requirement.

Per the charging statement, External Costs refer to amounts charged by DSP and the CSPs only. For an accurate comparison £6.0m of costs classified as cost of sales in the financial statements (costs from other Service Providers) have been classified as Internal Costs in Figure 2. External Costs that have been recognised in the profit and loss account this year but are due for payment after 31 March 2016 (£189.7m) have been deducted from the total costs of £301.1m; our Service Users will be charged for these amounts in future years.

An overview of the variance between actual spend in the year and that forecast in the charging statement for the same period is shown in Figure 2:

Figure 2

In the year we billed our Service Users £115.2m compared to a charging statement estimate of £114.7m. The £0.5m difference is due to an increase in the actual number of meters on which a fixed charge has been applied compared to the numbers anticipated in our charging statement.

Against the total estimated costs in the charging statement for the year of £114.7m (excluding the prudent estimate) we have incurred £111.4m. This underspend of £3.3m is primarily due to a reduction in pass-through costs, which represents the charges from the SEC administrator, SECCo Ltd. The estimate of £4.5m in the charging statement was in line with the budget included in our Licence Application Business Plan. Their charges were significantly lower than anticipated as they had collected surplus funds from the previous year which were utilised against their costs in 2016.

At the beginning of the year we had brought forward deferred revenue of £11.1m. Taking into account the amount unspent in 2016 and the additional funds collected due to additional meter numbers, £15.0m of deferred revenue is available for expenditure in future years.

At the end of the year we have a closing trading cash position of £23.7m and a closing credit cover deposit balance of £1.6m. £15.0m of this represents funds deferred for use in the future, and the balance of £8.7m goes towards payment of our net current liabilities.

Financial Key Performance Indicators (KPIs)

During the period we have focussed on financial KPIs to monitor financial stability, and progress on meeting IMs specified in the Licence. We are required to provide assurance of financial stability under the terms of the Licence, as this underpins our ability to continue in operation. The key metrics that are reviewed by the Board with respect to liquidity are the cash ratio (ratio of cash and cash equivalents to current liabilities), debtor days (the average number of days debtors take to pay) and cash conversion cycle (average number of days between outlay of cash and cash recovery). The Board also reviews the quarterly cash flow forecast.

To ensure that we are able to make payments for liabilities due in full we aim for a minimum cash ratio of one. This is achieved by accurate cost forecasting and ensuring that charges to Service Users are set at an appropriate level to ensure adequate cash levels are maintained. At the end of the year the cash ratio was 0.42 (2015: 1.30). This ratio is negatively impacted by the £38.0m (2015: £3.0m) accrued in short term liabilities for payments to be made within 12 months from the year end for work completed against milestones and other contractual activities. The adjusted cash ratio excluding the amounts payable within 12 months was 1.25 (2015: 1.67). The adjusted cash ratio provides a more appropriate measure of the proportion of cash to liabilities due in full at the end of the year. Milestone payments are due after the year end and receipts that are collected in the next 12 months will go towards these future payments.

Parties are required to pay invoices in accordance with payment terms set out in the SEC, being the later of five working days from the date of invoice and eight working days following the end of the month to which the invoice relates. This is closely monitored for both liquidity and compliance purposes. Average debtor days did not increase above the expected level of five days during the year.

After receipt of cash from parties we aim for payments to our suppliers to be made within their contractual terms, which can range up to 30 days. The average cash conversion cycle during the year was 25 days (2015: 21 days).

Our business strategy

In line with our General Objectives[1] and the expectations of the energy industry and government, our unequivocal focus is the implementation of the DCC Services and infrastructure to enable the rollout of smart meters. Alongside this, we must identify, create and respond to opportunities to improve, develop and widen DCC Services in order to provider further benefit to consumers and the energy industry.

Our strategic priorities for the next five-year period are therefore to:

- secure the efficient and effective rollout of smart meters;
- execute initiatives that will improve the performance and cost effectiveness of DCC Services;
- support programmes that will enable a transformation in the supply of energy and operation of networks for the benefit of the consumer; and
- deliver value for money for the consumer and the energy industry by maximising the utility of DCC Services.

To deliver these priorities we have developed a portfolio of programmes that covers rollout, service improvement, enabling energy industry transformation and the considered diversification of DCC Services. To execute these priorities, we are building a central strategic development capability to manage development and improvement across the delivery lifecycle.

During the year we published both our Business Plan[2] and Development Plan[3] which set out our plans for future years and our approach to achieving our strategic priorities.

Achieving our strategic priorities

We will deliver our strategic priorities through our efficient and goal focused business model. The priorities of this model are:

Strong leadership and management

Our strategy and business model are driven by our Board, working in partnership with the senior management team, who are best placed to understand the risks and challenges that face our business and how best to mitigate and manage them. We believe that management set the tone for the rest of the Company and recognise that their knowledge and understanding is absolutely key to shaping the skillset of the rest of the workforce.

Sourcing the best resources and capability

Our business and service can only be as good as the people we employ. We are therefore resolute in nurturing the best talent. We do this through continuous learning and training, regularly inviting guests from industry and other businesses to participate in workshops and presentations to keep our teams fully up-to-date with current developments and issues.

Development of important external relationships

We recognise that maintaining strong relationships with industry, the regulator and Government is the best way for us to deliver maximum efficiency for the consumer. We achieve this in a variety of ways. We engage with senior personnel from industry, Government and the regulator through Transitional Governance fora such as the Smart Metering Delivery Group, Implementation Managers Forum and the Technical Business and Design Group. We host a number of technical groups such as the Design Release Forum, Service Management Design Forum and the Communications Hub and SM-WAN Forum where we work in partnership with industry to develop technical aspects of the programme. Our Industry Partnership Managers manage 120 industry accounts while we delivered three successful Industry Days last year where we briefed representatives from industry, Government, the regulator and other stakeholders on the progress of the programme and collaborated on common issues and risks. Our extensive engagement work is recognised and valued by many from the wider smart metering programme.

1 Smart Meter Communication Licence – Condition 5. General Objectives of the Licensee
2 www.smartdcc.co.uk/about-dcc/business-plan/
3 www.smartdcc.co.uk/about-dcc/future-service-development/

Extensive governance and risk management

We recognise that controlling risk to acceptable levels is central to our success. The Board is responsible for determining the nature and extent of significant risks, as well as the internal control systems to mitigate them. We maintain a strong focus on risk management as we understand that this drives our strategic decision making process. The risk management process is led in the first instance by the Board who ensure that our governance, processes, controls and risk management strategies are effective, with the Audit Committee advising the Board on governance, risk management and internal control. As a subsidiary of Capita plc (Capita) we also have an annual review of our internal controls by the Capita Group Internal Audit function.

Future developments

Our priority is managing the implementation of the service and the scaling of operations to support the mass rollout of meters to domestic properties and non-domestic sites by 2020.

Alongside this, we have undertaken preparatory work on a portfolio of new programmes which will maximise the number of consumers who stand to benefit from smart meters and radically change the way consumers interact with their energy supplier. These include:

- delivery of a programme to enrol and adopt SMETS1 meters into the DCC service. We have initiated the development of the Initial Enrolment and Adoption Feasibility Report and aim to publish the draft report in September 2016. We currently expect that migration of SMETS1 meters to the new service will be underway in 2018;
- introduction of a dual band communications hub which will increase the range of the Home Area Network. During the year we initiated an impact assessment with our Service Providers for the provision of a dual band communications hub and are expecting to introduce it 2018; and
- implementation and operation of a Centralised Registration Service which will enable delivery of reliable next-day switching; in support of this, Ofgem has developed a five-stage plan to develop a next-day switching blueprint, designed through a process of extensive collaboration with stakeholders. Ofgem has concluded that activity to design and procure a Centralised Registration Service should form part of DCC's Mandatory Business. Although the requirements for our input into the programme are still evolving, we are already mobilising a project team to support Ofgem. During 2016/17 we will work with Ofgem and industry through the blueprint phase with the aim of agreeing a design for switching arrangements and the Centralised Registration Service. Based on this blueprint, we then expect to procure, implement and operate a Centralised Registration Service for industry.

Principal risks and uncertainties

Our Risk Management Strategy consists of identifying and managing risks to objectives across the full range of our operations. Strategic risks that have been identified are reviewed regularly by the Board.

The most significant strategic risks are summarised in Table 1 below:

Risk	Assessment of change in risk since inception	Mitigation of risk
Solution Delivery		
The Company is currently in a programme phase of solution delivery, with the delivery of a sustainable and secure solution being the fundamental driver to success. In addition to commercial penalties, failure to deliver would have a significant adverse reputational impact.	A re-plan exercise in the prior year moved the date for Initial Live Operation from December 2015 to April 2016, with the provision for functional contingency and up to 6 months schedule contingency. A revised two release delivery strategy was developed in December 2015, which utilised part of this contingency. This timeline provides more confidence in achieving delivery.	• The Company is structured to support both the programme and the enduring phases of service delivery. A fully resourced programme management function is in place to oversee the programme phase. • Stakeholders are consulted on a regular basis through dedicated industry, regulatory and commercial teams to ensure that issues are identified and addressed. • DCC is ISO27001 accredited and the design, build and test of the solution is being reviewed by a Competent Independent Organisation.
Third Party Dependence		
The Company's success is dependent on the achievements of its Service Providers. If a Service Provider fails to deliver then the Company may not meet its objectives.	There has been no significant change in the nature of the dependencies during the year.	• Dedicated commercial and programme resources are in place to manage the contractual relationships with Service Providers. • The Company continues to invest in maintaining strong collaborative relationships with Service Providers.
Regulation		
Over the life of the programme, and the subsequent enduring operation there may be changes to the business context of the SMIP. These may arise from changes to Government policy.	There has been no significant change in the political or regulatory environment during the year.	• Dedicated industry and regulatory teams are in place. • Smart Metering aligns with stated policy goals of the main political parties.
Financial exposure		
There is a risk that the regulator could judge that costs have been incurred inappropriately with financial and reputational consequences for the Company.	The Company has now had two Price Control Assessments and has a better understanding of the regulator's position and requirements.	• Regular reinforcement of economic and efficient requirements by the Senior Management team and the Board. • Robust change control and benchmarking processes • Ongoing engagement with regulator.
Licence Compliance		
The Company provides services due to its position as the Licence holder and, as such, has a commitment to meeting all requirements of the Licence.	Through ongoing engagement, the Company has been able to develop its understanding of the regulators' expectations and requirements.	• The Company has developed an Internal Control environment and Risk Management strategy that includes controls to ensure compliance with Licence provisions. • Ongoing review of controls and reporting to the Board of any exceptions identified.

Table 1

Future Viability

In accordance with provision C.2.2 of the 2014 revision to the Corporate Governance Code, the Directors have assessed the prospects of the Company over a four year period, rather than the 12 months required by the 'Going Concern' provision. The four year period for review was selected for the following reasons:

i) The Company's business plan covers a four year period

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

iii) This period is well within the dates of the Licence term (currently 2025)

The business plan considers the progress of programme delivery and roll-out of the DCC service. The charging statement and budget process requires DCC to review its ongoing activities and future plans, supported by a monthly review of internal activities and ongoing review of external Service Provider activities. These are the basis for the charges to be recovered from Service Users. In addition to cost identification, DCC is able to make adjustments to the charges that mitigate the risk of under-recovery of charges for prior years (correction factor), and ensuring that DCC remains cash positive (Prudent Estimate). The Company's Licence allows the recovery of all costs that are efficiently and economically incurred.

Based on this assessment, providing the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and providing the smart metering programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020. The Directors consider this to be a reasonable process and therefore allow them to form a reasonable expectation of the company's prospects in the circumstances of the inherent uncertainty of a four year period.

The Directors confirm that their assessment of the principal risks facing the Company were robust.

Based upon this assessment, and the fact that the Company's Licence allows the recovery of all costs that are efficiently and economically incurred, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

Employees, environmental and social issues

At the end of the year, the number of employees of the Company in continuing operations (including Directors and Senior Managers) was as follows:

	Female	Male
Directors	-	5
Senior management	2	3
Employees	71	127

Information regarding environmental matters, employees, and social, community, and human rights issues has not been included in this report as they are not necessary for the understanding of the development, performance, or position of our business in this reporting period. In general the Company follows the policies of the parent company.

Going concern basis

Refer to the Notes to the financial statements for a description of how we manage financial risks, in particular liquidity, to ensure adequate resources for the continuation of the business. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. At the same time as the approval and signing of this Annual Report they have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and accounts.

On behalf of the Board,

Richard McCarthy CBE
Chairman
29 June 2016

Corporate governance statement

Compliance with the code

The Company is required by its Licence to include within both its Statutory and Regulatory Annual Reports a corporate governance statement which describes how the main principles of the UK Corporate Governance Code (the 'Code') have been applied, and is comparable to the statement a quoted company is required to prepare. We have applied the principles of the Code applicable to a company outside of the FTSE 350.

As a subsidiary of Capita the Company operates according to the corporate governance framework of Capita and maintains its own governance arrangements where necessary. With regards to disclosures within this statement Ofgem has granted consent for exclusion in the following area:

- Re-election of the Board, Code provisions B.7.1 to B.7.2
- Greenhouse gas emissions disclosure in the Directors' report
- The Company's capital structure in the Directors' report
- The Directors' remuneration report (in its entirety)

The Company is not compliant with the following areas of the Corporate Governance Code:

Code Provison	Area of non-compliance
A.4.2	A meeting with the Non-Executive Directors without the Chairman to appraise his performance was not carried out during the year, although the Chairman's performance was considered as part of the annual Board Evaluation (discussion page 23).
B.2 (1-4)	The Company has not appointed a Nomination Committee, as Board appointments are conducted in accordance with Capita policy and Licence conditions.
B.3.2	The terms and conditions of appointment for the Non-Independent Non-Executive Directors are not available at the Company's registered office, since these are set out in their employment contracts with Capita.
C.3.1	The Code provides that the Board should establish an Audit Committee of at least three, or in the case of smaller companies two, Independent Non-Executive Directors. Whilst the Code does not specify that all Audit Committee members need to be Independent Non-Executive Directors, best practice is for them to be. However, the membership of the Committee, which includes a Non-Independent, Non-Executive Director and a member who is not a Director, is considered suitable for the nature and size of the business and will be reviewed on a regular basis.
D.1.1	During the year, the Remuneration Committee discussed the recommendation of the Code to include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and determined that did not seem appropriate, given the nature of the Companies and its activities.
D.2.1	The Chairman of the Board, a Non-Independent Non-Executive Director, is also the Chairman of the Remuneration Committee. The arrangement is considered suitable for the nature and size of the business. The arrangement will be reviewed on a regular basis.
E.2 (1-4)	The Company does not hold General Meetings since the Company has only one shareholder, Capita.

Table 2

Leadership

The Role of the Board

The role of the Chairman is set out in the Company's Board and Governance Manual, which has been adopted by the Board and is reviewed annually. The Board is responsible for monitoring the effectiveness of the day to day operation and management of the Company's compliance with the Licence, including ensuring that the independence requirements are met. The Company is governed by a Board of five Directors. Four of the Directors are Non-Executive Directors. Two of these Non-Executive Directors are considered to be Sufficiently Independent as defined by the Licence and Independent in accordance with the Code. Meetings are chaired by the Chairman, who sets the agenda, and are convened on at least a quarterly basis.

The following matters are reserved for the Board:

- Providing leadership for the Company within a framework of effective controls which will enable risk to be assessed, monitored and managed;
- Approving the Company's internal control and risk management systems;
- Setting strategic aims for the Company, and ensuring that it has the necessary financial and human resources to meet its objectives;
- Reviewing the Company's financial stability and governance arrangements;
- Reviewing management performance and providing guidance on the Company's values and standards;
- Reviewing the Company's compliance report as required by the Licence and Annual Report produced by the Compliance Officer;
- Reviewing and approving certificates for Ofgem, ensuring that the Company is compliant with its Licence and that it has the adequate financial and operational resources; and
- Approving the Company's Statutory and Regulatory Annual Reports.

Meetings

The attendance at Board and Committee meetings by the Directors and Committee members, expressed as a number of meetings attended out of a number eligible to attend, are shown below. Jonathan Simcock and Stephen Sharp are not members of the Audit Committee or the Remuneration Committee. Nicolas Bedford is not a Director, but is a member of the Audit Committee.

Name	Board meetings	Audit Committee	Remuneration Committee
Richard McCarthy (Chairman of Board and Remuneration Committee and Non-Executive Director)	13 of 14	2 of 2	2 of 2
Jonathan Simcock (Executive Director)	14 of 14	N/A	N/A
Philip Male (Senior Independent Non-Executive Director)	13 of 14	2 of 2	2 of 2
William Rickett (Chairman of Audit Committee and Independent Non-Executive Director)	14 of 14	2 of 2	2 of 2
Stephen Sharp (Non-Executive Director)	12 of 14	N/A	N/A
Nicolas Bedford (Appointed 27 May 2015)	N/A	2 of 2	N/A

Insurance

The Company has arranged appropriate in-demnity insurance cover for its Directors and Officers.

Division of Responsibilities

The Board sets the tone for the Company and the atmosphere within which the senior management team operates through the DCC Executive Board. The Board therefore ensures that the way in which it conducts itself, its attitude to ethical matters, its definition of success and how its risk appetite is defined are all clearly communicated to management via meetings.

The DCC Executive Board is required to provide such information to the Board as needed to enable it to exercise its judgement over the matters reserved for it.

The Company's operating model is to maintain its own financial operations, management and reporting functions, with additional financial systems and administrative support provided by Capita through an internal trading arrangement. Operational and financial performance is reviewed on a monthly basis.

Company Secretarial support, provided by Capita, is available to Directors as required.

Non-Executive Directors

Philip Male has been appointed as the Senior Independent Non-Executive Director and he is available to serve as an intermediary for those Directors who do not wish to approach the Chairman directly.

Effectiveness

Composition of the Board

The initial appointments were managed through Capita's appointment process, subject to the Licence requirement that at least two of the persons at any time appointed as Directors must be Sufficiently Independent from the Company and any affiliates or related parties. The arrangement also ensures that the Board has the appropriate balance of skills, experience, independence, and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The appointments of the Independent Non-Executive Directors are subject to Letters of Appointment. These are reviewed by representatives of the shareholder on an annual basis. The appointments of the Non-Independent Non-Executive Directors are subject to Letters of Appointment and having regard to the terms of their employment contract with Capita. Capita ensures that the Non-Independent Non-Executive Directors' roles are structured to enable them to devote sufficient time to meet what is expected from them in relation to their duties for the Company.

Appointments to the Board

The Code provisions B.2 (1-4) require the Company to have a Nomination Committee in place to lead the process for all Board Appointments. The Company does not comply with these provisions of the Code. Board appointments are conducted in accordance with Capita policy and Licence requirements. Due to the size and nature of the Company, the appointment of a Nomination Committee would not be appropriate.

Commitment

In the absence of a Nomination Committee, the Capita appointment process ensures that the Chairman, Executive Director and Non-Executive Directors have the appropriate availability to undertake their respective roles satisfactorily. The appointment process also ensures that the Executive Director has not taken on more than one Non-Executive Directorship or Chairmanship of a FTSE 100 Company. The Chairman also holds the following positions: Director of Company of Dreams Limited, Director of The National Communities Resource Centre Limited and Director of Funding Affordable Homes Limited.

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office. Since the terms and conditions of appointment of the Non-Independent Non-Executive Directors are set out in their employment contract with Capita, these are not available for inspection at the Company's registered office.

Development

Board members receive an induction on joining the Board and have the opportunity to discuss with the Chairman any training and development needs and the Chairman regularly reviews Directors' development and training needs through the annual Board evaluation. The Board is aware that it needs to continually monitor and improve performance and recognises this can be achieved through a Board evaluation, conducted on an annual basis, the format of which is determined by the Board.

Information and Support

All the Company's Directors are able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. This ensures that the Board have sufficient resources available to undertake their duties satisfactorily.

Evaluation of the Board

A meeting was held on 30 November 2015 between the Senior Independent Non-Executive Director, the other Independent Non-Executive Director and the Chairman. Amongst other matters, the performance of the Executive Director was discussed and deemed satisfactory.

During the year a Board Evaluation Questionnaire was circulated to all Directors which, amongst other matters, included sections on the performance of the Chairman, the Board and its committees and individual Director's self-evaluation. An executive summary of the findings was provided to all Directors at the Board Meeting on 26 January 2016. The evaluation indicated that all Directors continued to contribute effectively and demonstrated commitment to the role. As a result of the evaluation, the Board identified additional areas of focus for future training and Board meeting agenda. As part of the evaluation, the review of the Chairman was positive.

Accountability

Financial and Business Reporting

The Directors are responsible for the preparation of the Annual Report and accounts and have done so on the basis that the Company is a going concern. In this respect, the Company does not have any material uncertainties to the Company's ability to continue over a period of at least twelve months from the date of approval of the financial statements. The Directors have also assessed the prospects of the Company over a four year period and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020. Further detail about the assessment is set out in the Strategic Report on page 18. As part of the Annual Report, the Directors are also required to provide commentary on the Company's business model and strategy. Further information to this effect can be found in the Statement of Directors' Responsibilities on page 30 and in the Strategic Report (pages 9 to 19).

Risk Management and Internal Control

The Board, supported by the Audit Committee, is responsible for determining the nature and extent of the principal risks that are appropriate for the operations of the Company, the risk management and internal control systems that mitigate these risks, and for monitoring the effectiveness of these on an ongoing basis. These risks are considered in more detail in the Strategic Report on page 17. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and is not absolute assurance against material misstatement or loss.

The most recent versions of the Company's Risk Management Strategy and Internal Control Documents are available on our website www.smartdcc.co.uk. The Risk Management Strategy includes the ongoing process for identifying, evaluating, and managing the significant risks faced by the Company, and the Internal Control Document defines the governance and organisation structures that support the DCC Internal Control Framework.

Risks to programme delivery, meeting Licence obligations, and other governance requirements are reviewed by the Board regularly. A process of risk review has been in place during the year and at the date of approval of the Annual Report. It includes a review of risks considered strategic to the Company as the Licensee, and the risks to the delivery of the programme.

The effectiveness of the DCC Internal Control Framework is assessed throughout the year by the Board through both a regular cycle of evaluation and reporting, utilising DCC's business assurance capability, and additional ad hoc 'deep dive' procedures performed by Board members.

A full review of the risk management and internal control system was conducted on 24 June 2015 and 29 June 2016 by the Audit Committee and no significant failings or weaknesses were identified. This was summarised from the ongoing evaluation activities performed throughout the year.

The Board note that the structure of DCC's Risk Management Strategy and Internal Control Framework will continue to evolve as the Company matures, and as it moves from primarily a programme assurance to a service delivery environment.

Audit Committee

The Board has appointed an Audit Committee to oversee the relationship with the Company's auditor, in addition to advising the Board on risk management and internal control. Provision C.3.1 of the Code requires the Audit Committee to consist of at least two Independent Non-Executive Directors. On 27 May 2015, Nicolas Bedford was appointed a member of the Audit Committee and fulfils the requirement for a member of the Committee to have recent and relevant financial experience. The remaining members are the two Independent Non-Executive Directors and the Chairman. The make-up of the Committee is considered to be suitable for the size and nature of the Company. The adequacy of this arrangement continues to be reviewed on an ongoing basis.

Full details of the Committee's duties are detailed in the Audit Committee Report on page 26, which is incorporated by reference into this Corporate Governance statement.

Compliance Officer

As per Condition 12 of the Licence, the Company has appointed a Compliance Officer (Deloitte LLP). The role of the Compliance Officer is to:

- Provide relevant advice and information to facilitate the Company's compliance with the Licence's arrangements for the Licensee's independence;
- Monitor the effectiveness of the Company's practices, procedures and systems in accordance with the Compliance Statement required under Part C of Licence Condition 10 (Protection of Confidential Information) and provide relevant advice and information;
- Advise whether, to the extent that the implementation of the above practices, procedures and systems requires the co-operation of any other person, they are designed so as reasonably to allow the required co-operation;
- Investigate any complaint or representation that is made and recommend remedial actions where required; and
- Produce an Annual Report that will be issued to the Company's Board setting out an opinion on the Company's compliance for the year and summarising the Compliance Officer's activities during the year.

On 2 June 2016, Deloitte LLP published the 'Independent Compliance Officer's Annual Report to the Licensee's Directors. The report concluded that in all material aspects, the Company had complied with all relevant Licence Conditions for the year ended 31 March 2016.

Remuneration

The Remuneration Committee consists of Richard McCarthy (Chairman) and the two Independent Non-Executive Directors. It is responsible for reviewing and advising Capita on setting the remuneration for all Executive Directors including pension rights and compensation payments. During the year, the Remuneration Committee discussed the recommendation of the Code to include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and determined that did not seem appropriate, given the nature of the Companies and its activities. Capita, in its capacity as the Parent Company, has the final say in determining the remuneration policy.

The Remuneration Committee also recommends and monitors the structure of remuneration for other designated senior management, including bonuses and incentive payments, with approval from Capita.

The remuneration of the Independent Non-Executive Directors consists of fees and reasonable expenses, in accordance with the Licence requirement. These are reviewed on an annual basis by representatives of the shareholder, Capita, as this is deemed appropriate given the nature of the Company. It does not include share options or other performance-related elements. Non-Executive Directors who are employees of Capita do not receive additional remuneration for their roles on the Board.

The Remuneration Committee will also recommend and agree the design of any payment related performance pay schemes for the Company with Capita and jointly approve the total annual payments made under such schemes to staff.

The terms of reference for the Remuneration Committee can be found on the Company's website (www.smartdcc.co.uk/about-dcc/governance/) in compliance with Code provision D.2.1.

Relations with shareholders

Section E of the Code requires the Company to demonstrate that there has been a satisfactory dialogue maintained with shareholders during the year. The Company has only one shareholder (Capita), and as a result, does not hold Annual General Meetings or undertake shareholder voting. However a Capita representative is present on the Board and consequently an ongoing dialogue is maintained with Capita through Board meetings, including by the Non-Executive Directors. More informal communication with Capita is undertaken on an ad hoc basis when it is required.

Audit Committee report

The purpose of the Audit Committee (the 'Committee') is to assist the Board in the effective discharge of its responsibilities for financial and regulatory reporting and for internal control and risk management. The Committee acts independently of the Executive management of the Company, and seeks to safeguard the interests of the Company by:

- Monitoring the integrity of the financial statements of the Company (including the Statutory and Regulatory Annual Reports) and reviewing any significant financial reporting judgements contained within them;
- Reviewing the Company's financial controls, internal controls and risk management systems;
- Monitoring and reviewing the effectiveness of the Company's internal assurance activities. The Company relies on the internal audit function of Capita;
- Making recommendations to the Company's Board in relation to the appointment, re-appointment and removal of the Statutory auditor (the 'auditor') and approving the remuneration and terms of engagement of the auditor;
- Reviewing and monitoring the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Reporting to the Board on how it has discharged its responsibilities.

The Committee is chaired by William Rickett (Independent Non-Executive Director) and its other members are Nicolas Bedford (Non-Executive member of the Audit Committee) appointed on 27 May 2015 by reason of his relevant finance experience, Philip Male (Independent Non-Executive Director) and Richard McCarthy (Non-Executive Director/Chairman of the Board).

Committee meetings

The Committee met formally on 29 June 2016 to review the Company's draft Annual Report and accounts, its internal controls and risk management systems and its compliance with its Licence and other regulatory requirements. The Committee also met on 30 November 2015 to review the external audit strategy, internal audit report and the status of the evolution of the internal control framework, and on 23 February 2016 to review the revenue recognition policy and viability reporting in the Annual Report. The terms of reference for the Audit Committee can be found on the Company's website (www.smartdcc.co.uk/about-dcc/governance/) in compliance with provision C.3.3 of the Corporate Governance Code.

Meetings continue to be planned around the financial calendar of the Company to undertake the following activities:

Internal controls and risk

- Review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, ensuring that the arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- Review and monitor the internal controls that are operated by management to ensure the integrity of information reported to shareholders and other key stakeholders;
- Review the risk management framework to ensure it supports the development of the business;
- Meet with the Head of Risk and Internal Control to discuss key risks within the business and its management; and
- Review the annual report from the Compliance Officer which provides an opinion on the Company's compliance with Licence Conditions 9, 10, and 11.

External auditor

- Consider and approve the audit approach and the scope of the audit to be undertaken by the auditor;
- Meet the auditor independently of the Executive Director;
- Receive the report from the auditor on the audit findings;
- Consider the level of non-audit services being provided by the auditor to ensure that the objectivity and independence of the auditor is safeguarded; and
- Review and approve the management representation letter required by the auditor.

Accounting and financial reporting

- Review the Annual Report and accounts, including the significant accounting policies, and make recommendations to ensure the accounts give a fair, balanced and understandable presentation of the performance of the Company; and
- Review the disclosures on internal controls, risk management and principal risks and uncertainties within the report and accounts.

Significant issues related to the financial statements considered by the Audit Committee

The significant issues discussed by the Committee were the existence and accuracy of costs incurred by the Company, the accounting treatment for contractual milestones and stage of completion assessment and the state of the Company's compliance with its Licence and other regulatory requirements. The Committee concluded that there had been no material misstatement of costs, that the accounting treatment applied is appropriate and there had been no material breaches of compliance with the Licence or other regulatory requirements.

As a matter of course, the Committee will consider all issues raised by the auditor in its report on audit findings. It will also review any items that individually breach the audit differences threshold set by the auditor. For any such items it will assess their relative impact on the reported statements and decide whether or not they should be adjusted to ensure the report and accounts give a fair, balanced and understandable presentation of the Company's performance.

The Committee will also consider the following

- areas of judgement, such as provisions and accruals;
- revenue recognition and deferred revenue;
- cash flow and liquidity; and
- working capital.

The Committee will review disclosures around any such material areas and make enquiries of the Finance Director and management as appropriate to gain an understanding of the amounts recorded and disclosures made.

Statutory auditor

The Committee provides a forum for reporting by the auditor, and it advises the Board on the appointment, independence and objectivity of the auditor and on the remuneration for statutory audit, regulatory audit, and non-audit work. It also discusses the nature, scope, and timing of such work. The Committee annually performs an independent assessment of the suitability and performance of the auditor in making its recommendation to the Board for their re-appointment. The tenure of the current audit firm is three years. An audit tender has not been undertaken since the appointment of the current audit firm in 2013. The performance of the auditor was reviewed at the meeting on 29 June 2016, when the Committee considered the performance of the auditor to be satisfactory and recommended to the Board that the auditor be re-appointed.

Auditor independence

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

- The Finance Director monitors the independence of the auditor as part of the assessment of the auditor's effectiveness and reports to the Committee;
- The Finance Director routinely benchmarks the level of the audit fee against other comparable companies to ensure ongoing objectivity in the audit process and reports results to the Committee; and
- The Finance Director monitors the level and nature of non-audit fees. Specific assignments are discussed in advance with the auditor and flagged for the approval of the Committee as appropriate. The Committee reviews non-audit fees of this nature and considers implications for the objectivity and independence of the relationship with the auditor.

Risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Company's system of internal control, and providing their view to the Board. The Board has established a clear organisational structure with defined authority levels. The day to day running of the business is delegated to the Executive Director of the Company. The Executive Director meets the Company's operational and financial management teams every week. The Executive Director also reports key financial and operational measures at Capita's monthly operating Board meetings.

The risk management and internal control system was reviewed for effectiveness at the Committee's meeting on 24 June 2015 and 29 June 2016. At this meeting, the Committee also reviewed the Company's reporting obligations in accordance with the Licence and received a report on how these have been met.

The Company does not have an independent internal audit function, but is subject to the internal audit scope of Capita. One audit review was conducted during the year, with no significant issues raised.

William Rickett CB
Chairman of the Audit Committee

29 June 2016

Directors' report

The Directors present their Annual Report on the affairs of the Company, together with the financial statements and the auditor's report for the year ended 31 March 2016. The corporate governance statement set out on pages 20 to 25 forms part of this report.

An indication of likely future developments in the business of the Company is included in the Strategic report. Information about the use of financial instruments by the Company is given in note 2 of the financial statements.

Directors

The Directors who served throughout the year except as noted were as follows:

Richard McCarthy CBE
Philip Male
Jonathan Simcock
William Rickett CB
Stephen Sharp

Dividend

The Directors do not recommend the payment of a dividend.

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Auditors

Each of the persons who are a Director at the date of approval of this Directors' report confirm that:

- There is no relevant audit information of which the Company's auditor is unaware; and
- Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

On behalf of the Board,

Richard McCarthy CBE
Chairman

29 June 2016
17 Rochester Row, London, SW1P 1QT

Statement of Directors Responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors have decided to prepare voluntarily a corporate governance statement as if the company were required to comply with the Listing Rules of the Financial Conduct Authority in relation to those matters.

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

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

On behalf of the Board

Richard McCarthy CBE
Chairman

29 June 2016

Background to Smart DCC

We are a unique player in the transformation of the GB energy market. We are delivering a critical platform on behalf of the energy industry that will secure the implementation and roll-out of smart meters, whilst at the same time bringing focus and capability to the future development and improvement of our services.

We are committed to ensuring the benefits of smart metering are realised, and that the investment in our services will provide value for money for consumers and the energy industry.

Smart meters will operate under regulations contained in the SEC, a multiparty contract which sets out the terms for the provision of our services. Any entity that wishes to use our service is required to become a party to the SEC and comply with its provisions.

How do we add value to our stakeholders?
Our aim is to engage with all of our stakeholders to deliver the programme within the required timescales at an economic and efficient cost. This means working closely with industry, the Government and the regulator.

Value for the consumer
We are committed to providing value for the ultimate consumers.

In the long-term, smart metering will provide consumers with transparency of their energy consumption in monetary terms and in real time. This will allow them to save energy and money, as well as remove the requirement for estimated bills or visits from a meter reader. Switching suppliers will also be much easier and faster, allowing consumers to shop around for the best deal.

The services, with appropriate regulatory reform, will provide consumers with more control over how much energy they use and at what times of the day. This change in consumer behaviour will give the operators of the electricity system more flexibility to manage the variations in supply caused by intermittent renewable generation.

Value for Service Users of our services
Energy suppliers
Through the service we provide and their own investments in smart metering systems, energy suppliers can transform their relationship with their customers and save money in the management of their meters.

Network operators
Our service will support network operators as they work towards smart grids which will support a more sustainable energy supply system.

Authorised third parties
Consumers will have the option to allow other organisations to have access to the data from their smart meter to provide them with valuable products and services. For example, energy switching sites could use accurate information on the amount of energy used to advise consumers on the best tariff and energy supplier.

Delivery for Great Britain
In the longer term our services will provide opportunities to access a secure, national data and communications infrastructure designed specifically for an increasingly smarter world that can be used by other industry sectors for the benefit of the whole country.

Financial statements

Independent auditor's report to Smart DCC Limited and to the Gas and Electricity Markets Authority ("The Regulator")

We have audited the Regulatory Financial Statements of Smart DCC Limited ("the Company") set out on pages 34 to 48 which comprise: the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes to the Regulatory Financial Statements. These Regulatory Financial Statements have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 30 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed. We will accept such responsibility to the Regulator on condition that the Regulator agrees in writing to the Regulator's Contract by signing the Regulator's Contract.

Basis of preparation

The Regulatory Financial Statements are separate from the Statutory Financial Statements of the Company. Condition 30 of the Regulatory Licence requires the Regulatory Financial Statements to be prepared on a consistent basis, where possible, and have the same content and same format, as the most recent or concurrent Statutory Financial Statements. As a consequence the Regulatory Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("EU-IFRS") subject to amendment required by Condition 30 of the Regulatory Licence. Financial information other than that prepared wholly on the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') or EU-IFRS does not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in financial statements prepared in accordance with the Companies Act 2006.

The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

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

Respective responsibilities of the regulator, the directors and auditor

As described in the Statement of Directors' Responsibilities on page 30, the Company's directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Condition 30 of the Regulatory Licence.

Our responsibility is to audit, and express an opinion on, the Regulatory Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Scope of the audit of the Regulatory Financial Statements", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. Those International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Financial Statements sufficient to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Financial Statements.

In addition, we read all the financial and non-financial information in the Report that includes the Regulatory Financial Statements to identify material inconsistencies with the audited Regulatory Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report. The other information comprises the Strategic Report, Corporate Governance Statement and Report of the Directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Condition 30 of the Regulatory Licence as set out by the Regulator. Where Condition 30 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Financial Statements are consistent with those used in the preparation of the Statutory Financial Statements of the Company. Furthermore, as the nature, form and content of Financial Statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on Regulatory Financial Statements

In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2016 have been properly prepared, in accordance with Condition 30 of the Regulatory Licence and the accounting policies set out on pages 39 to 41 of the Regulatory Financial Statements.

William Meredith
for and on behalf of KPMG Audit LLP,
Chartered Accountants

15 Canada Square, Canary Wharf,
London, E14 5GL

1 July 2016

Statement of Profit or Loss and Other Comprehensive Income

	Note	Year Ended 31 March 2016	Year Ended 31 March 2015
		£'000	£'000
Revenue	3	301,074	93,931
Cost of sales		(269,968)	(71,258)
Gross profit		**31,106**	**22,673**
Administrative expenses		(30,697)	(22,259)
Operating profit		**409**	**414**
Interest received		-	34
Finance costs		(409)	(448)
Profit for the period		**-**	**-**
Tax	7	-	-
Profit before tax		**-**	**-**
Other comprehensive income for the period		**-**	**-**
Total comprehensive income for the period attributable to the owners of the Company		**-**	**-**

Notes on pages 39 to 48 form an integral part of these financial statements.

Statement of Financial Position

	Note	31 March 2016	31 March 2015
		£'000	£'000
Non-current assets	8	205,653	50,941
Current assets			
Trade and other receivables	9	48,192	7,006
Cash and bank balances		25,351	18,099
		73,543	**25,105**
Total assets		**279,196**	**76,046**
Current liabilities			
Trade and other payables	10	58,548	14,019
Deferred revenue		14,995	11,086
		73,543	**25,105**
Non-current liabilities	8	**205,653**	**50,941**
Total liabilities		**279,196**	**76,046**
Net assets		**-**	**-**
Equity			
Share capital	12	-	-
Retained earnings		-	-
Equity attributable to the owners of the Company		-	-
Total equity		**-**	**-**

Notes on pages 39 to 48 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 29 June 2016. They were signed on 29 June 2016 on its behalf by:

Richard McCarthy CBE, Chairman
Smart DCC Limited Company registered number: 8641679

Statement of Changes in Equity

	Share Capital	Retained Earnings	Total Equity
	£'000	£'000	£'000
Balance at 1 April 2015	-	-	-
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**
Balance at 31 March 2016	-	-	-
Balance at 31 March 2015	-	-	-

Notes on pages 39 to 48 form an integral part of these financial statements.

Statement of Cash Flows

	Note	Year Ended 31 March 2016	Year Ended 31 March 2015
		£'000	£'000
Net cash from operating activities	14	7,661	12,341
Net cash from investing activities		-	-
Net cash from financing activities		(409)	(437)
Net increase in cash and cash equivalents		**7,252**	**11,904**
Cash and cash equivalents at beginning of year		18,099	6,195
Cash and cash equivalents at end of year		**25,351**	**18,099**

Cash and cash equivalents at the end of the year are available for use by the Company.

Notes on pages 39 to 48 form an integral part of these financial statements.

Notes to the financial statements

1. General Information

Smart DCC Limited is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 17 Rochester Row, London, SW1P 1QT. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 9 to 19.

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

2. Significant accounting policies

Basis of accounting

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

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

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they have adopted the going concern basis of accounting of preparation for the financial statements. Further detail is contained in the Strategic report on pages 9 to 19.

Revenue recognition and deferred revenue

Revenue is measured at the fair value of the consideration received or receivable. It represents amounts invoiced to Service Users for services provided by the Company in accordance with the Charging Methodology specified by the SEC. Revenue also includes amounts receivable from Service Users that will be used to pay Service Providers in the future for the value of work they have completed as at the date of the Statement of Financial Position. This includes contractual milestones that had been achieved and an assessment of stage of completion of work against contractual obligations yet to be fully achieved. The maximum amount of revenue that can be recognised is equal to total costs incurred. Any amounts invoiced in excess of costs incurred are recognised as deferred revenue.

With respect to some of the services that Service Users receive Smart DCC is acting as an agent and accounting for the revenue and associated costs accordingly. These services are those where Service Users receive a direct service from the Service Providers and Smart DCC acts as an intermediary to charge Service Users for the cost of the service. Smart DCC does not earn any commission on these services. The amounts owed for the services and the amounts to be recovered from Service Users are recognised in the Statement of Financial Position only. No amounts are recognised in the Statement of Profit or Loss.

Taxation

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years.

Recognition of costs for contractual milestones

Amounts due to Service Providers in respect of work completed against contractual milestones and other contractual obligations are recognised based on the stage of completion of work where this can be reliably estimated. The cost and revenue associated with each milestone or obligation is therefore recognised to the extent that work has been completed. If the stage of completion cannot be reliably estimated the cost and revenue associated with each milestone or obligation is recognised when fully achieved.

Amounts that have been recognised at the date of the Statement of Financial Position, but have not been paid are recognised as a liability; initially at fair value, and then subsequently at amortised cost. Amounts due within 12 months of the date of the Statement of Financial Position are recognised as a current liability. Amounts due after 12 months are recognised as a non-current liability.

Liabilities are recoverable through future charges to Service Users and therefore a corresponding asset is recognised on the Statement of Financial Position.

Financial Instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables (including non-current assets), cash and cash equivalents, and trade and other payables (including non-current liabilities).

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as component of cash and cash equivalents for the purpose only of the cash flow statement.

Standards issued but not yet adopted

IFRS 15 is a new standard effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted; however the Company has not applied this standard in preparing these financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

3. Revenue

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

	Year Ended 31 March 2016	Year Ended 31 March 2015
	£'000	£'000
Continuing operations		
Charges to Service Users	111,379	40,012
Accrued income	189,695	53,919
	301,074	93,931

Accrued income represent amounts due from Service Users that will be used to pay Service Providers in respect of work they have completed towards contractual milestones and other contractual obligations as at the date of the Statement of Financial Position. £189.7m has been recognised in cost of sales to reflect the payment due to the Service Providers. The amount is composed of payments due in less than one year from the date of the Statement of Financial Position (£35.0m) and payments due after one year (£154.7m). Amounts due are recoverable over a maximum period of 12 years up until the end of the contract term with our Service Providers.

4. Operating Segments

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

All revenue, result, assets and cash flows arise from the provision of Core Communication Services under the Mandatory Business of the Company.

Geographical information (external customers)

The Company's revenue has all arisen from the UK for services provided to UK energy suppliers.

Information about major customers

Included in revenues arising from Mandatory Business Services are revenues of approximately £100.6m, which arose from charges to the SEC parties' nine largest energy suppliers in the UK. No other single customer contributed 10% or more to the Company's revenue.

5. Auditor's remuneration

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

	Year Ended 31 March 2016	Year Ended 31 March 2015
	£'000	£'000
Fees payable to the Company's auditor for the audit of		
- The Company's annual accounts	48	36
Total audit fees	**48**	**36**
Fees payable to the company's auditor for other services to the company		
- Other assurance services	24	30
- Other advisory services	-	3
Total non-audit fees	**24**	**33**

Total fees of £72,000 were due to the auditor for the year to March 2016 (2015: £69,000).

6. Staff costs

Staff are legally employed by Capita Business Services Limited for the benefit of the Company. Staff costs incurred by Capita Business Services Limited on behalf of the Company are recharged to the Company on a monthly basis. This includes pension contributions made by Capita Business Services Limited for employees enrolled in the Capita defined benefit pension scheme. No costs associated with the administration of the scheme are charged to the Company.

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

	Year Ended 31 March 2016	Year Ended 31 March 2015
Corporate management	6	3
Industry and regulation	13	12
Finance	22	18
Commercial	5	7
Design and assurance	76	29
Operations	12	11
Security	5	5
Programme management	28	21
	167	**106**

Their aggregate remuneration comprised:

	Year Ended 31 March 2016	Year Ended 31 March 2015
	£'000	**£'000**
Wages and salaries	19,387	13,130
Severance pay	60	27
Social security costs	805	663
Other pension costs	169	130
	20,421	**13,950**

7. Tax

	Year Ended 31 March 2016	Year Ended 31 March 2015
	£'000	**£'000**
Corporation tax:		
Current year tax expense	-	-
Deferred tax expense	-	-
	-	**-**

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 20%. No tax amounts have been recognised directly in equity.

8. Non-current assets and liabilities

Included in both non-current assets and non-current liabilities are amounts of £205.7m, representing amounts due from Service Users and due to Service Providers respectively.

At 31 March 2016 our Service Providers had achieved several contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with the Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, and hence a non-current liability of £205.7m has been recognised, representing amounts payable after 31 March 2017.

These amounts will be recoverable from Service Users and therefore, a corresponding amount of £205.7m has been recognised as a non-current asset.

The milestones are recoverable over a maximum period of 12 years, up to the end of the contract term with Service Providers.

9. Trade and other receivables

	2016	2015
	£'000	£'000
Trade receivables due from Service Users	9,690	3,741
Trade receivables due from Service Providers	300	-
Prepayments	241	287
Unbilled revenue in respect of milestones	37,961	2,978
	48,192	**7,006**

Trade receivables represent amounts due from Service Users that were invoiced in March, but had not been received at the date of the Statement of Financial Position. They are classified as loans and receivables and are therefore measured at amortised cost. The average credit period taken on sales of service is five days from receipt of invoice. Interest is charged at the base lending rate of the Bank of England on a daily basis if payment is not received by the due date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month.

Under Section J of the SEC, Service Users have to provide Credit Support in the form of a bank guarantee, a letter of credit, or a cash deposit. The value of Credit Support has to be equal to or greater than the Service Users credit cover requirement, which is calculated on a weekly basis as specified in the SEC. If a user fails to pay their invoice by the due date and a notice has been issued, the Company can claim unpaid amounts plus interest from the Credit Support provided.

Unbilled revenue of £38.0m is the amount to be recovered in the next year from Service Users in respect of payments due on contracts with Service Providers. The amount due to the Service Providers is recognised in trade payables (see note 10). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

10. Trade and other payables

	2016	2015
	£'000	£'000
Trade payables due to Service Users	1,629	471
Trade payables due to Service Providers	9,298	-
Milestones due in less than one year	37,961	2,978
Accruals	7,379	6,633
Other payables	2,176	3,903
Interest payable	105	34
	58,548	**14,019**

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

Milestones due in less than one year are amounts that are due to be paid in the next year to Service Providers in respect of payments due on contracts for milestones and work completed to as at the date of the Statement of Financial Position. These amounts will be recoverable from Service Users and therefore a corresponding amount of £38.0m has been recognised in trade and other receivables (see note 9).

Accruals reflect amounts outstanding for costs which were invoiced subsequent to year end.

Other payables represent amounts payable for VAT, plus invoices due to our immediate parent Company in respect of services rendered.

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

11. Off balance sheet arrangements

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £35.2m. This represents payments that will become due to Service Providers on the condition that they meet several, future contractual milestones. The milestones are spread over the term of the contracts with the Service Providers and none had been achieved at 31 March 2016. See note 2 of the Company's accounting policies in respect of milestones.

The Company is also contractually obliged to pay operational charges to Service Providers once services go live. However these amounts are subject to contract changes and cannot be reliably estimated at the date of the Statement of Financial Position.

12. Share capital

	2016	2015
	£'000	£'000
Authorised, issued and fully paid up:		
1 ordinary share of £1 each	-	-

The Company has one class of ordinary shares which carry no right to fixed income.

13. Financial instruments

Categories of financial instruments		
	2016	2015
	£'000	£'000
Financial assets		
Loans and receivables		
Non-current assets	205,653	50,941
Cash and bank balances	25,351	18,099
Trade and other receivables	48,192	7,006
	279,196	**76,046**
Financial liabilities		
Amortised cost		
Non-current liabilities	205,653	50,941
Trade and other payables	58,548	14,019
Deferred revenue	14,995	11,086
	279,196	**76,046**

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

Financial risk management

Capital risk

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

Credit risk

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

Service user Value at Risk ("VaR") x Service user Credit Cover factor

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

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

No trade receivables were past due.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's policy is to hold cash at a level sufficient to ensure that the Company has available funds to meet its medium term payment obligations. The Company does not have external financing, and therefore includes a Prudent Estimate in Charges to allow for timing differences between receipts and payments.

Management monitor the risk of having a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's creditors (e.g. accounts payable, tax payments) and projected cash receipts from operations.

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

14. Notes to the cash flow statement

	2016	2015
	£'000	£'000
Profit for the year Adjust for:	-	-
Finance costs	409	414
Increase in receivables	(41,186)	(2,632)
Increase in payables	48,438	14,536
Finance cost payable	-	23
Net cash from operating activities	**7,661**	**12,341**
Net cash used in financing activities	(409)	(437)

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

15. Related party transactions

During the year the Immediate Parent Company, Capita Business Services Ltd, invoiced the Company £31.9m (2015: £22.1m) (excluding VAT) for administration expenses paid on behalf of the Company. At the date of Statement of Financial Position an amount of £1.7m (2015: £2.6m) was owing to the Immediate Parent Company. This is not secured and will be settled in cash.

Aggregate directors' remuneration

The total amounts for Directors' remuneration were as follows:

	Year Ended 31 March 2016	Year Ended 31 March 2015
	£'000	£'000
Salaries, fees, bonuses, and benefits in kind	475	415

Included in the amount shown above is £324,000 (2015: £330,000) in respect of qualifying services for the highest paid director; £316,500 (2015: £322,500) was paid as salary, bonus and benefits and £7,500 (2015: £7,500) was paid in pension contributions. The Directors of the Company are considered to be the key management personnel.

16. Ultimate parent company

The Company is a subsidiary undertaking of Capita Business Services Ltd. The ultimate parent company is Capita plc, incorporated in the UK.