Data Communications Company

Annual Report 2021

Smart DCC Limited
Annual Report including the
Regulatory Financial Statements
Year ended 31 March 2021
Registration number
08641679

Contents

Glossary

Acronym/ abbreviation	Meaning
API	Application Programme Interface
ARC	DCC Audit and Risk Committee
BCDR	Business Continuity and Disaster Recovery
BEIS	Department for Energy, Industry & Industrial Strategy
BSC	Balancing and Settlement Code
CBSL	Capita Business Services Limited
CDM	Change Delivery Methodology
CEO	Chief Executive Officer
CES	Customer Effort Score
CFO	Chief Finance Officer
CH&N	Communications Hubs and Networks
CIPR	Chartered Institute of Public Relations
CMMI	Capability Maturity Model Integration
CoS	Change of Supplier
CO2e	Carbon Dioxide equivalents
CSS	Central Switching Service
DBCH	Dual Band Communications Hubs
DBT	Design, Build and Test
DCC	Data Communications Company
DCUSA	Distribution Connection and Use of System Agreement
DF	Post Final Settlement Run
DNO	Distribution Network Operators
DSP	Data Service Provider
ECGS	External Contract Gain Share
ECoS	Enduring Change of Supplier
ECS	Elective Communication Services
ELS	Early Life Support
eNPS	Employee Net Promoter Score
EV	Electric vehicle
ExCo	DCC Executive Committee
FOC	Final Operating Capability
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit and Loss
GBCS	Great Britain Companion Specification
GCHQ	Government Communications Headquarters
GDPR	General Data Protection Regulation
GFI	The testing tool
IA	Impact Assessments
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	Implementation Managers Forum
IOC	Initial Operating Capability
ISO	International Standards Organisation
IT	Information Technology
KPI	Key Performance Indicator
MCC	Migration Control Centre
MDR	Meter Data Retrieval Service
MHHS	Market-Wide Half-Hourly Settlement
MOC	Middle Operating Capability
MPAN	Meter Point Administration Number
NCSC	National Cyber Security Centre
NED	Non-Executive Director
NEP	Network Evolution Programme
NHS	National Health Service
OCI	Other Comprehensive Income
OPR	Operational performance regime
PHE	Public Health England
POC	Proof of concept
REC	Retail Energy Code
REDD	Reduced Emissions from Deforestation and Degradation
RF	Final Settlement Run
RFI	Requests for Information
RFT	Requests for Transfer
SEC	Smart Energy Code
SECAS	Smart Energy Code Administrator & Secretariat
SF	Initial Settlement Run
SHE	Safety Health Environment
SIT	System Integration Testing
SMDA	Smart Meter Device Assurance
SMDG	Smart Meter Delivery Group
SMIP	Smart Meter Implementation Programme
SMKI	Smart Metering Key Infrastructure
SOC	Security Operations Centre
SRO	Senior Responsible Owner
TCoS	Transitional Change of Supplier
TOC	Technical Operation Centre
TOGAF	The Open Group Architecture Framework
TOM	Target Operating Model
ToU	Time of Use
TSP	Trusted Security Provider
UCF	Unsecured Credit Factor
UIT	User Integration Testing
UK	United Kingdom
UMS	Unmetered Supply
VAR	Value at Risk
VAT	Value Added Tax
VCS	Verified Carbon Standard
WAN	Wide Area Networks

1. Our Purpose

Why?

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

How?

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

What?

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

2. Chairman's foreword

Welcome to the Data Communications Company (DCC) Annual Report and Regulatory Financial Statements for the year ended 31 March 2021.

The DCC continues to drive forward with its role in facilitating the roll-out of smart meters in homes and small businesses across Britain, making the nation's energy infrastructure greener, smarter and more resilient. In many respects, our highly secure network is now the digital spine of the energy system.

This past year has been one of persistent effort and collaboration amidst the global COVID-19 pandemic. For smart metering, as for many industries, the first lockdown in 2020 all but completely halted progress. However, I am pleased to say that through the hard work of our energy sector customers in the energy industry and our DCC operational staff, the smart meter roll-out quickly recovered to almost pre-COVID-19 installation rates and, as at 31 March 2021, there were more than 11m energy smart meters operating on our secure communications platform. Supporting the digitisation of Britain's whole energy system remains the DCC's overriding priority.

The DCC is making an important contribution as a national enabler of Net Zero. Its ubiquity brings capability. The coverage of our network now stands at more than 99% of Great Britain and with many millions of smart meters on our centralised, secure system, we are helping the energy industry to operate using an unprecedented level of detailed consumption data. This increasingly rich data will make us a more resilient nation and help us to move away from dependence on carbon-intensive power generation, maximising the benefits of renewables and energy storage.

When I reflect on the DCC's achievements, I am most proud of our work to facilitate the over-the-air migration of the country's first generation of smart meters (SMETS1) onto our network. This has been a significantly challenging and highly technical undertaking, with thousands of device and software combinations. It represents one of the largest ever IT migrations in a live environment.

Throughout this performance year, we have ensured that all SMETS1 meter types are now available to be enrolled to our secure platform and have worked to improve the stability and reliability of the migration service so that it delivers in line with what our customers set out in the Smart Energy Code (SEC). This means that each week we return smart functionality to thousands of energy consumers across Britain, bringing them freedom to switch energy suppliers while retaining a fully digitised connection to their new energy provider on the secure DCC network. We have achieved this within a live environment, without disruption to the end consumer. Meeting this challenge positions the DCC as a major technology enabler to the energy system.

One area in which the DCC is already working with the Government is electric vehicle (EV) smart charging. Our proposition, if mandated, will improve charging at home, on-street in residential areas and at the workplace, providing robust protections to consumers. It would be an interoperable system that would enable providers to deliver a standardised service within a competitive market that will stop consumers getting trapped on poor deals. Since the DCC platform operates to security standards endorsed by the National Cyber Security Centre (NCSC), it would allow energy companies to protect the grid and support consumers by optimising electricity supply and demand, which in turn means they would be able to make the best possible use of renewables like wind power.

The DCC is a learning organisation and strives to improve. One area that has continued to see strong focus in the last 12 months is our effort to improve customer engagement. We are doing more than ever to ensure that our customers are well informed about mandated activity (such as our work on SMETS1 migration) and have the opportunity to shape and steer other programmes of work (such as the Network Evolution Programme (NEP)). In addition, we have delivered better financial transparency, overhauling our formal quarterly finance update to share more with customers on forecast spend, variances and programme costs, as well as programme updates. I do not see this as a temporary effort. We will continue to seek feedback from our customers and the regulator, review our activities, and make further improvements to our engagement and collaboration.

As part of that focus on our customers, we also strive to deliver good value for money. I am pleased to announce that the DCC has made further cashable savings of £15.4m during the 2020/21 regulatory year.

Consistent with previous years, I am impressed by the capability within the DCC and our passionate, hard-working team. My sincere thanks to my DCC colleagues, contractors and Service Providers for their very considerable efforts during the challenges of the last performance year.

Richard McCarthy CBE,
Chairman

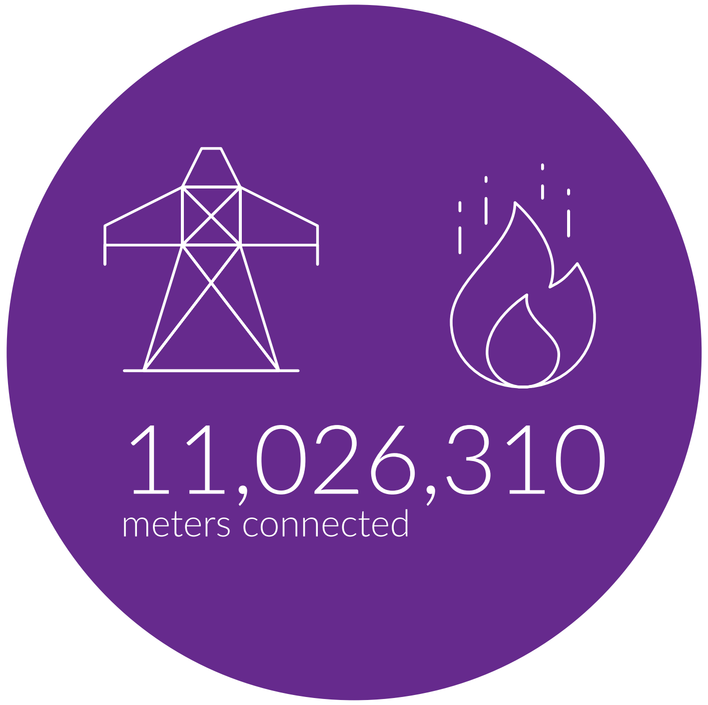
3. CEO's foreword

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

When I wrote my contribution to last year's annual report, I don't think any of us could have predicted that twelve months on, we would still be living with COVID-19 restrictions. At the time we had only essential staff working in our premises and energy suppliers had virtually halted smart meter installations. I am therefore extremely proud of the way my colleagues at the DCC, our customers across the energy industry and our suppliers managed to recover within months back to almost pre-pandemic installation rates. As of 31 March, there is a combined total of more than 11m smart meters connected to the centralised, secure network. This figure includes second-generation smart meters and several million first-generation meters which we have connected to the network, restoring smart capability. That number gives us huge scale and, to put it in context, it means the network now has greater reach than superfast broadband, terrestrial TV or mobile phones.

Over the last year the DCC has developed into a smarter, more digital business. Like many other organisations we were able to move all of our people seamlessly to remote working. At the height of the pandemic, our programmes were operating normally and hundreds of thousands of first-generation (SMETS1) meters were being migrated on to our network.

Even in the face of the pandemic, it is clear that climate change remains our generation's overriding challenge and supporting the energy industry to decarbonise and digitise remains at the core of everything we do at the DCC. We have built a unique, secure communications network, that consistently operates to the specification set out the Government and our energy industry customers in the Smart Energy Code (SEC). Maintaining and improving operational performance continues to be a core focus. We have improved our customer engagement this year, and continue to look for new and improved approaches with the energy industry now having a clear process for inputting into our plans and priorities and, where our work is mandated, customers should feel much more informed about the decisions we are making with transparency at the heart of our approach.



What the DCC has delivered and continues to deliver demonstrates that we have the technological capability to support innovation to solve other societal challenges. Brabazon House, our operations centre in Manchester, remained closed to most staff and visitors during 2020/21, but the test labs remained accessible on a remote basis and continued to develop a suite of 'proofs of concept' (POC) in partnership with other organisations. The most important is our project to test a possible national solution for EV charging at home, at work, and on-street near the home. There are huge benefits to using the DCC platform to support this. Our network, which is already built and operating at scale, reaches 99.3% of homes in Great Britain – greater than any other existing communications network. We also operate to security standards endorsed by the NCSC, which means not only protection for consumers, but a secure environment for energy providers to monitor and manage load – vital if Britain is to maximise its use of renewable sources.

The shift from fossil fuel vehicles to EVs is critical to the country's Net Zero ambitions, but there are challenges to overcome. Consumers need a service that is easy to use, interoperable and with protections against being locked in to poor deals. For the EV charging industry, we offer a standards based, secure and interoperable platform to enable easy deployment for EV charging companies, bringing consumer choice and confidence to charge and allowing companies who want to move to EV fleets. It will also provide a level playing field for providers of home and workplace EV charging. The POC will come to fruition later in 2021, yielding important data to inform future charging arrangements, and I look forward to sharing the detail of our proposition then.

As the DCC network develops and more homes are connected, our role in supporting consumer choice becomes more apparent. There is no area more relevant than our Ofgem-sponsored programme to provide a central, next-day energy supplier switching service. Work has continued in 2020/21, although the timeline for completion has been altered due to the disruption from COVID-19. I look forward to seeing the service launch in mid-2022 – having a reliable and easy to use service that will enable us all to change our energy provider and secure the best deals overnight will significantly improve consumer protections.

I have spoken in the past about wanting the DCC to be a great place to work so I am pleased that this year's employee net promoter score (eNPS) has improved by six points to +17. Our annual internal survey results also showed strong evidence of colleagues feeling connected to the business and of good relationships with managers. This is thanks to a collective effort during a period of time when connections could have been weakened; I have been amazed at the way our people looked after each other and maintained the sense of a team.

I believe that we can feel proud of what we've achieved at the DCC. There is strong a sense of purpose in the organisation as we digitise to drive change throughout Britain's energy system. As a platform for clean economic growth and as a public asset with further benefit to offer, the DCC is at the heart of a post-pandemic recovery which demonstrates our country's aspiration to lead in the fight against climate change.

4. Key performance indicators

Financial

Statutory reported costs

2021	2020
£442.1m	£447.6m

Cost savings

2021	2021 Target	2020
£15.4m	>£15.0m	£14.4m

Delivering within budget
(i.e. spend compared to charging statement)

2021	2021 Target	2020
£600.1m	£618m	£487.8m

Operational

SMETS2 installations

2021	2020
7,154,900	4,299,449

SMETS1 installations

2021	2020
3,871,410	126,941

Operational Performance Regime (OPR)

2021	2021 Target	2020
100%	80%	79%

Customer Effort Score (CSE)

2021	2021 Target	2020
5.4/7	4.1/7	4.4/7

Employee Net Promoter Score (eNPS)

2021	2021 Target	2020
+17	+13	+11

5. Network metrics

Our network's growth in the year

SMETS1:

+3,745,066
connected to our network

Cumulative total at the year-end was
3,871,410

Best month: 686k installs in **December 2020**

SMETS2:

+2,864,116
installed onto our network

Cumulative total at the year-end was
7,154,900

Best month: 387k installs in **November 2020**

Total Connections:

+6,706,310
total added to network

Cumulative total at the year-end was
11,026,310

Best month: 960k installs in **December 2020**

6. Strategic report

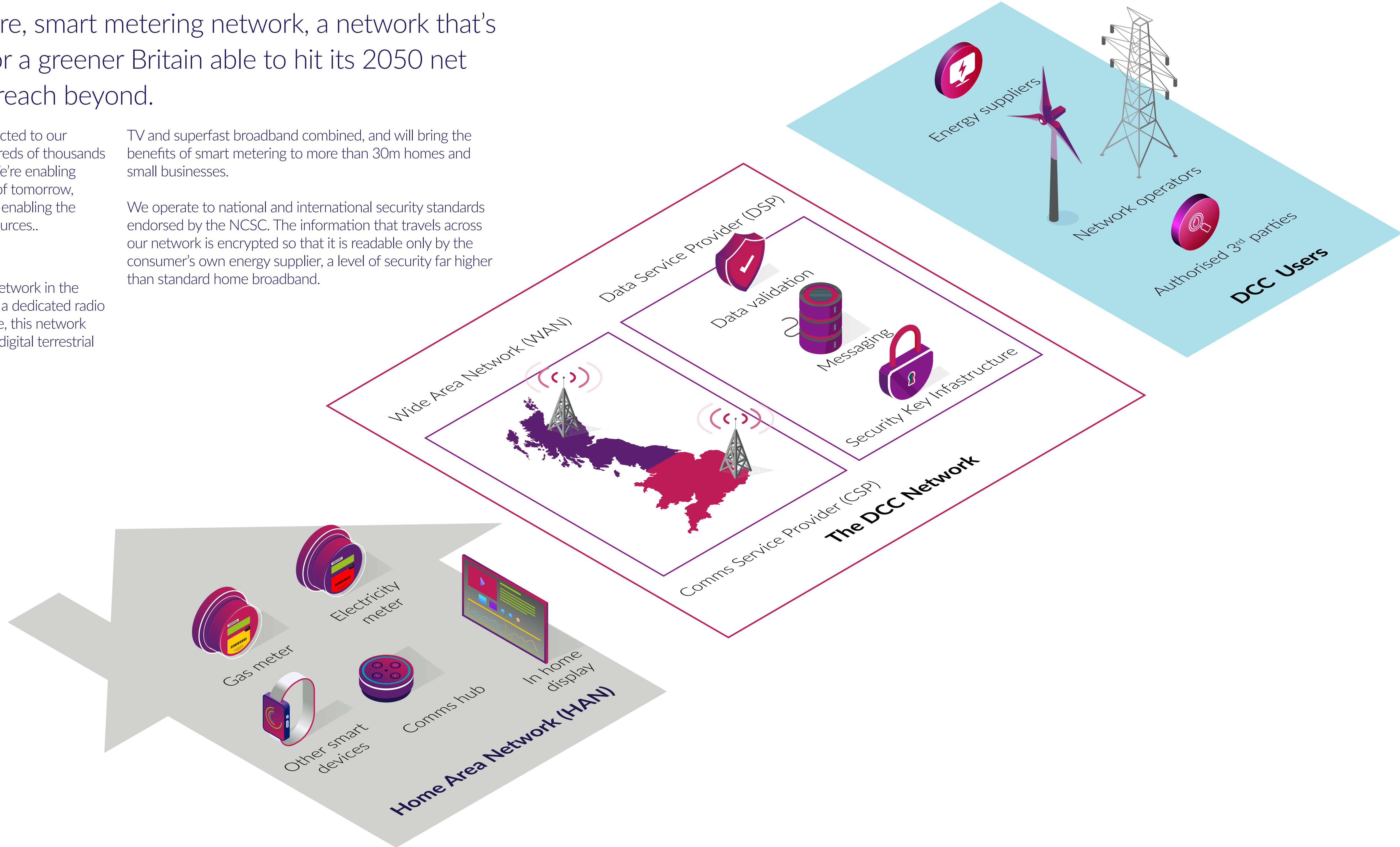
The DCC is a private company licensed by the Government and regulated by Ofgem to connect homes and businesses across the country to a single secure, smart metering network, a network that's laying the foundation for a greener Britain able to hit its 2050 net zero carbon target and reach beyond.

With millions of smart meters already connected to our network, we're helping people to save hundreds of thousands of tonnes in carbon emissions every year. We're enabling our customers to shape the energy system of tomorrow, empowering and protecting consumers and enabling the growth of intermittent, renewable energy sources..

Secure national infrastructure

Our network comprises the mobile phone network in the south and central parts of Great Britain, and a dedicated radio network in the north. Taken together at scale, this network provides greater reach than mobile phones, digital terrestrial TV and superfast broadband combined, and will bring the benefits of smart metering to more than 30m homes and small businesses.

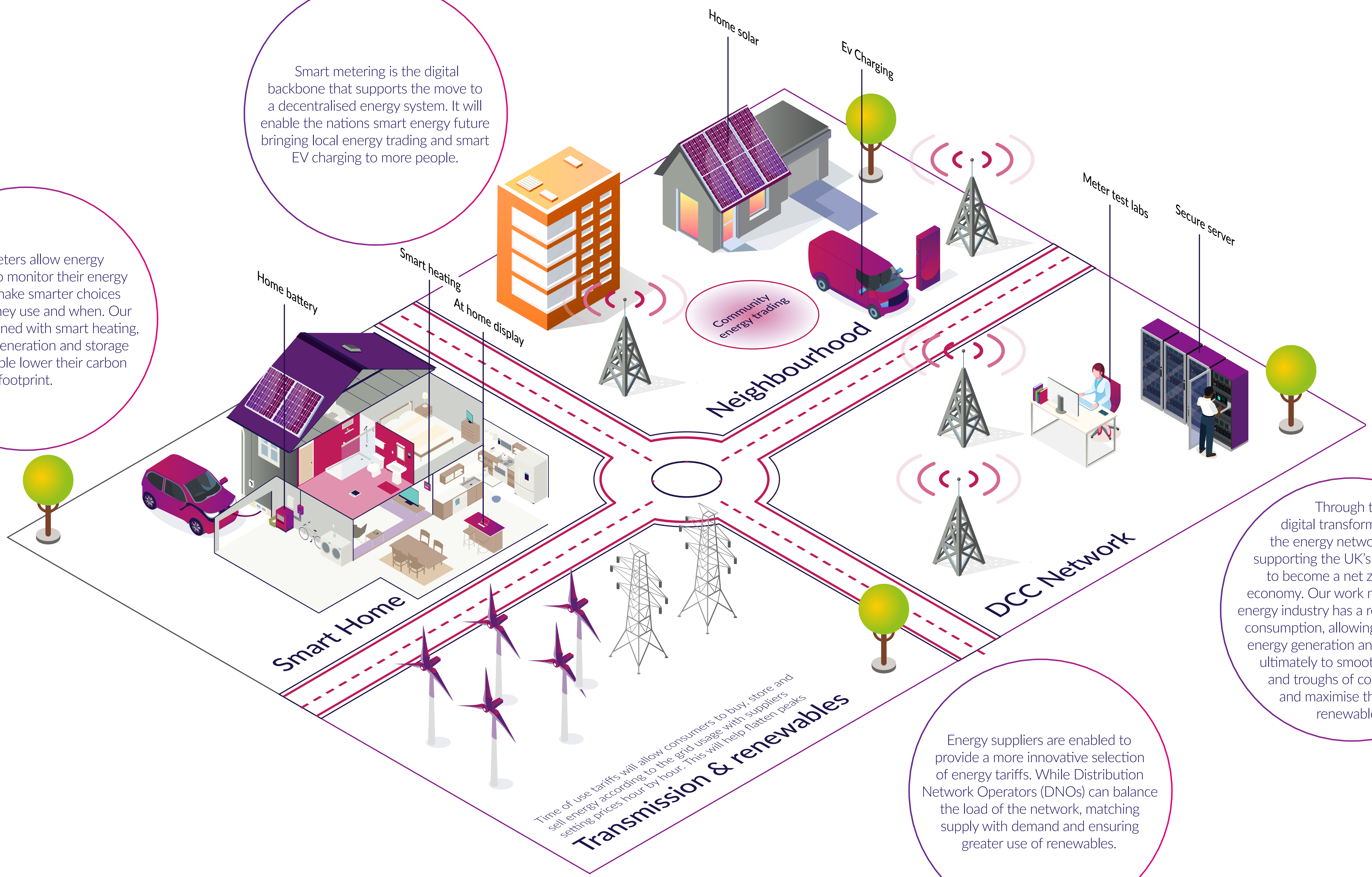
We operate to national and international security standards endorsed by the NCSC. The information that travels across our network is encrypted so that it is readable only by the consumer's own energy supplier, a level of security far higher than standard home broadband.



Helping to facilitate a net zero carbon future

Smart metering is the digital backbone that supports the move to a decentralised energy system. It will enable the nations smart energy future bringing local energy trading and smart EV charging to more people.

Smart meters allow energy consumers to monitor their energy usage and make smarter choices about what they use and when. Our network combined with smart heating, renewables generation and storage will help people lower their carbon footprint.



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

Energy suppliers are enabled to provide a more innovative selection of energy tariffs. While Distribution Network Operators (DNOs) can balance the load of the network, matching supply with demand and ensuring greater use of renewables.

What we do

We support the roll-out of second-generation (SMETS2) smart meters, as well as the migration of existing first-generation (SMETS1) meters onto our network.

We are also working with the energy regulator, Ofgem, to deliver a faster, simpler Central Switching Service (CSS) for energy consumers.

Case study: Progress in lockdown

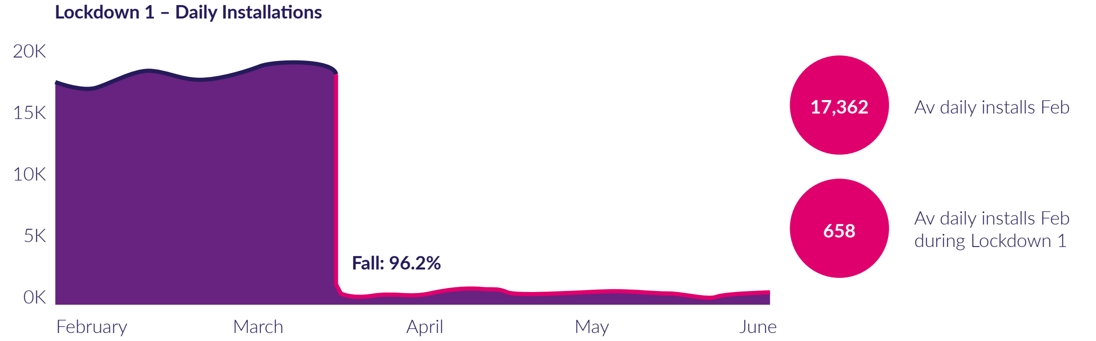
All organisations faced unprecedented challenges during lockdown. But thanks to the adaptability and resilience of our people, DCC and our customers kept the nation's smart meter roll-out moving forward.

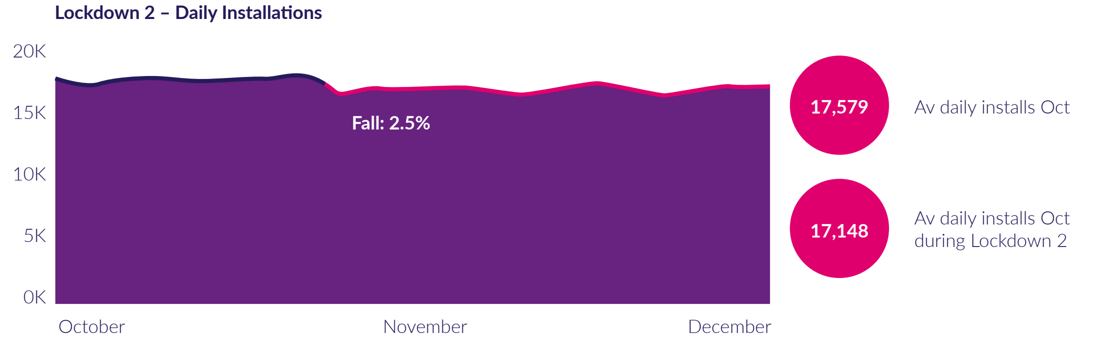
In March 2020, we quickly introduced new processes to shift most of our staff to working from home. We kept a small number of people on-site to perform key roles in our 24/7 Technical Operations Centre (TOC) and test labs. For them, we split teams, created new shift rotations, and arranged safe alternatives to public transport.

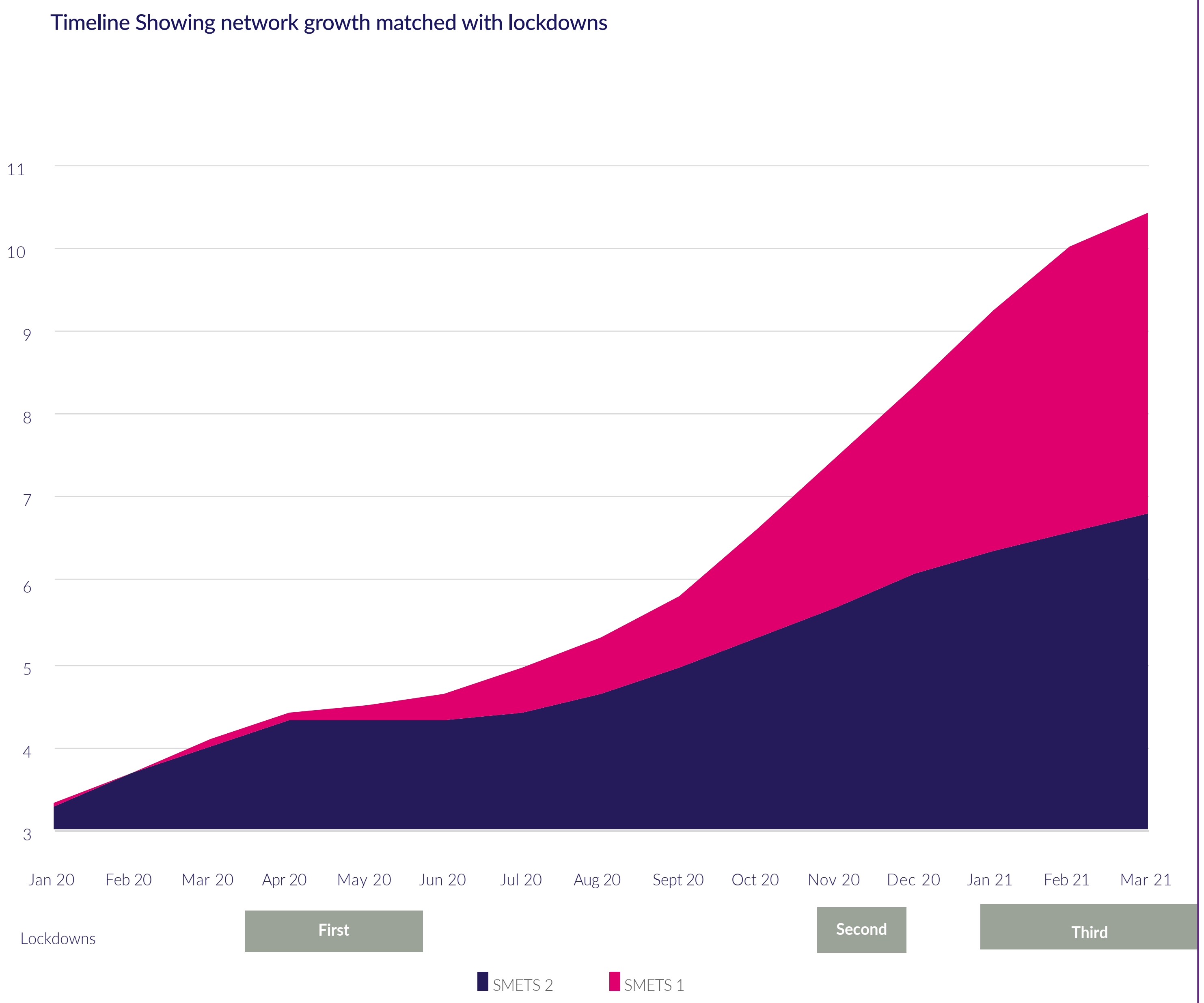
We were determined to ensure that people who were working remotely remained safe and well. For example, we created a new daily well-being register and followed-up individually with any colleagues who were experiencing difficulties.

The first lockdown effectively put a stop to the installation of second-generation smart meters by our customers. But they managed to find new, safe ways of working with the public, so that installation levels rebounded very strongly and were maintained, with 24/7 support from the DCC, even during subsequent lockdowns. Installations were 21 times higher in lockdown 3 than lockdown 1.

Throughout the year, we were able to grow the DCC network remotely by migrating more than 3.7m first-generation smart meters. This was all without the need for an engineer to visit the energy consumer's home.







Our highlights this year

Introduced Dual Band Communications Hubs (DBCHs) **unlocking** a further **20%** of properties to our network

Achieved an eNPS of **+17**

Helped return smart functionality to **millions** of First-Generation meters

Supported University of Salfords  Energy House 2.0

Technical Operation Centre (TOC) **24/7** crewed all year

Our network carried **3bn** messages in 2020-21

Increased our network coverage to **99.3%**

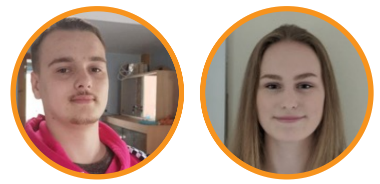
More than **doubled** the size of our network

THE SPINE OF THE UK'S DIGITAL ECONOMY

With **CGI**, donated **120** saplings to schools across the UK

Achieved **Carbon neutrality** **in 2020**

Our network is now **saving** more than **300,000** **Tonnes of CO_2** a year

Brought on 4 apprentices 

Connected **6.7m** meters to our network

Operated our test labs  **throughout the lockdowns** in the year

Saved a further in **£15.4m** the year via our smart savings programme

SIT Complete Switching Team completed important System Integration Testing (SIT) milestone

First **polyphase** meters join **unlocking** our network **unlocking** more homes and small business to our network

How we work

The DCC works in a complex environment, paid for by the energy industry, regulated by Ofgem, mandated by the Government and with a responsibility to end consumers. We deliver our obligations through a series of contracts with third party External Service Providers.

We are driven to provide value for money for our customers and the nation. Our spend is reviewed annually by Ofgem, and any unjustified costs can be disallowed. We have a robust process in place to ensure all spend is for the benefit of the programme.

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

A national platform for good

As well as providing services to our existing customers, and the energy system as a whole, our network also has the potential to become a platform enabling further digitisation and innovation in the wider energy sector. New products will in many or most cases be delivered as value-added services and, as a source of additional revenue, would create an opportunity for the DCC to lower charges for our existing customers and potentially over time become cost neutral.

Our customers have invested in a network that is highly secure, operating to standards endorsed by the NCSC. These attributes make it ideally suited for delivering further developments in the energy sector such as providing a standardised, common platform to support nationwide EV smart charging. If the Government were to mandate the re-use of the DCC infrastructure for this purpose, it would represent good value for money, extracting further benefit from this public asset.

With its eventual reach of more than 30m homes and businesses in Great Britain and fully encrypted information flow, the DCC network could also provide the world's first central, secure and universally accessible remote healthcare platform. This is already being tested by the NHS with the support of the DCC, which is supporting at-risk patients, such as those with Alzheimer's disease, to remain at home longer rather than going into care.

Smarter, greener lives

Achieving carbon neutrality as a business last year (2019/20) was a positive indicator of how we hold ourselves to account as an organisation. Managing to retain that position by being Carbon Trust certified as neutral for 2020/21 was therefore a very proud moment.

Unsurprisingly, the coronavirus pandemic meant a marked downturn in commutes and business travel for our people, but our operational sites remained open for our critical workers and we maintained business as usual for our customers throughout the year. We will work hard to continue in this vein during the coming year, recognising that hybrid working will see a blend of office and mobile working, based on need rather than presenteeism. Our Smart Green Team, a group of DCC volunteers, continue to role model our corporate behaviours so we can lead 'smarter, greener lives' a commitment which is at the heart of our company purpose.

As well as having switched to 100% renewable electricity tariffs at lower cost, upgraded our air conditioning and launched a mandatory eco-literacy training module for all employees, we've installed EV charging points and 'living pillars' as part of pilot projects at our Manchester office, and worked with our partners CGI and local schools on STEM programmes, seed distribution and tree planting initiatives. We are also collaborating with other leading companies in the technology and utility sectors as part of Low Carbon Steering Groups and examining sustainability within our supply chain.

Readying our network for the future

Our Network Evolution Programme (NEP) explores how the DCC can use new processes, systems and technologies to improve the live service, reduce operating costs and charges for customers, and, above all, secure the stability and continuity of a critical part of Britain's national infrastructure.

This year we agreed the Communications Hubs & Networks (CH&N) outline business case with Department for Energy, Industry & Industrial Strategy (BEIS), the SEC Panel and sub-committees. We will continue to engage with customers as we prepare the final business case for BEIS' consideration and develop the outline business case for the Data Services Provider (DSP).

Smart Savings

Our Smart Savings programme has found £43.0m in internal cashable savings since 2018 when it was introduced.

£15.4m of cashable savings were recognised in this financial year, which comprises of:

£5.6m saved on testing services

£5.2m saved as a result of further SMETS2 contract negotiations

£4.6m saved from other contract negotiations and internal initiatives

Our business strategy

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

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

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

Our progress

Last year we set out our key priorities for 2020/21 in our Business and Development Plan, to:

Ensure cost effectiveness	• Cost discipline page 38
Improve our engagement with stakeholders	• Delivering for our customers page 38 • Improving the customer experience page 39
Manage a successful smart meter roll-out	• Operating and improving live service page 25 • Security and stability page 26 • Business Continuity and Disaster Recovery (BCDR) page 26 • SEC modifications and Elective Communication Services (ECS) page 61 • Testing and experimentation page 60 • Dual Band Communications Hubs (DBCH) page 27
Enable intelligent transformation of the energy system	• Enduring Change of Supply (ECoS) page 27 • SMETS1 migration page 27 • Switching page 29 • Market-wide Half Hourly Settlement (MHHS) page 31
Deliver change and enable innovation in a way that's flexible, straightforward and cost-effective	• Network Evolution Programme (NEP) page 32 • Electric Vehicle (EV) charging page 34 • Innovation and re-use page 35

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

Operating and improving the live service

The DCC faces the twin challenge of making sure that we have the right systems and capacity in place to operate our existing services efficiently, while adapting ourselves to handle some of the transformational changes we face, such as the introduction of the new CSS (which will underpin Faster & More Reliable Switching). We continuously monitor and improve our processes to deliver the best possible outcome for our customers.

Standards

We are looking to measure all our operational processes against industry standards, and we remain on track to achieve Capability Maturity Model Integration (CMMI) Level 5 by April 2023. We continue to document and improve processes for existing and incoming services, such as CSS, with internal audits to ensure progress.

During the year we acquired a new tool called BiZZdesign, which will ensure that best practice is followed in documenting processes and providing a "single version of the truth". BiZZdesign allows all teams to create digital copies of relevant IT and infrastructure materials in preparation for external audits and assessment.

By ensuring that service improvement remains at the heart of our operating ethos, we will maintain our longer-term target of aligning with international standards (ISO 9000 and ISO 20000) by 2024. Given the volume of changes in the business it's vital that we follow a trusted and reusable process for all our design architecture practices. The Open Group Architecture Framework (TOGAF) helps businesses to design, plan, develop, and implement their infrastructure with fewer errors while staying on budget, and we will continue to use it to it deliver value for our customers.

We remain committed to maturing our design architecture practices within the next three years, keeping up not only with the changes in industry standards but also adopting the relevant reference models for technology changes.

Security and stability

The DCC has developed an excellent range of security expertise and capability. But we need to build on this as the scale of our operations grows and new threats emerge to the success of our business. We have identified four areas where we need to focus particularly closely if we are to maintain the necessary level of protection for our services, people and assets.

Information management

A coherent protection strategy always requires a full understanding of what is to be protected. Therefore, we strive to ensure there is a comprehensive knowledge of what we have, how it is used and how it is deleted after use, to ensure there are no gaps in our understanding of risk.

To further enhance our ability to meet this need we are implementing a business-wide information management policy that will ensure consistent handling of assets through their entire life cycle from procurement to disposal. This includes data storage and processing requirements which must be adhered to by all employees and contractors.

This will also pave the way for the upgrading of our personal data management next year when the go-live of faster switching means that the DCC will become a significant Data Controller (as defined in the General Data Protection Regulation (GDPR)), and thus enhance our ability to comply with international and domestic data protection regulations.

Threat-led defence

Traditional threat analysis has concentrated almost exclusively on weaknesses in the system and process, and how they may be exploited. As the attacks become more sophisticated and wide ranging, the trend is to focus on the threats and look back into systems and any exposure to these threats. This provides a more effective and efficient way of dealing with key risk that are a real threat to the business.

The DCC is adopting a 'threat-led' model to manage risk, which will focus on understanding adversaries and modelling scenarios in which they may attack the DCC or its partners.

Zero-trust approach

Since the widespread adoption of cloud hosting services, traditional security approaches have had to adjust to address new challenges posed by collaboration technologies and shared infrastructure.

Best practice recommends a more data centric approach to security, linked with robust identity authentication i.e. protect the data rather than the container, ensure the person accessing it is who they claim to be and has authorisation to access it.

The "zero-trust" approach reduces the risk of human-related security breaches, which have been among the most high-profile cases in recent years, while also protecting against weaknesses in security architecture and the vulnerabilities of cloud and IT collaboration platforms.

Demonstrable compliance

Compliance plays a critical role in the DCC, to meet regulatory and legal requirements. There is an ever-present need to demonstrate compliance in a clear and transparent way and to give assurance that requirements are being met.

DCC are focussed on clear and effective communication regarding compliance, using dashboards and flexible reporting to show where risk is increasing or reducing. This provides opportunity to link compliance outputs together for a full picture, saving effort, and seeing risk relationships more clearly. This is then mapped against the threat intelligence gathered.

Business continuity and disaster recovery (BCDR)

As the scale of our operations grows year by year, our BCDR Team is constantly reviewing threats and proactively implementing measures to ensure the continuity of our business, so that our customers know they can always rely upon us and have confidence in the service we provide. As a result, the COVID-19 pandemic had minimal impact on our operations. We were able to switch most of our people swiftly and effectively to working from home. And compliance with Government guidelines, such as social distancing, allowed critical workers to function on site as required.

During the year we ran tabletop exercises, both internally and with the industry, which further validated the robustness of our BCDR strategy. Disaster recovery tests were successfully conducted internally and with service providers for both SMETS1 and SMETS2 meter installations and lessons used to improve the overall resilience of the smart metering ecosystem. We also staged live crisis simulation exercises, including a 'Black Swan' event that simulated a full-blown cyber-attack on the DCC infrastructure. It showed that our processes are robust and that we have a highly empowered team who can make critical operational decisions under pressure. We have tested a wide range of scenarios, from technology challenges to adverse weather events. We will continue to test all aspects of our BCDR approach, using different contexts to ensure that we are always as ready as possible for the unexpected.

The smart metering ecosystem is monitored round the clock by the DCC TOC and the Security Operations Centre (SOC). Any issues are handled by our Service Centre, the Major Incident Management Team and the BCDR Team. This proactively ensures the continuous operation of our network which is a critical piece of national infrastructure. Our BCDR capability ensures the resilience and continuity of the network and minimises operational downtime from disruptive events.

Enduring Change of Supplier (ECoS)

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

This functionality is currently provided by the DCC's DSP, using a process known as Transitional Change of Supplier (TCoS). However, as part of the drive to segregate our supply chain, it was always the intention that this capability would be provided by separate IT service partners. To achieve this, we are replacing TCoS with an ECoS capability.

In March 2020, a plan was agreed with BEIS for the delivery of ECoS and published to the wider industry. This set out three procurements for:

- Design, build & test (DBT) with ongoing support of an enduring application which allows the DCC to change party provider without needing new code in the future
- A hosting service for the application, to assist with future proofing and efficiency
- A managed service agreement for ECoS, which will maintain, monitor and evaluate the service on behalf of the DCC

We have appointed the supplier of the DBT phase in line with our targets and we are now finalising the appointment of the Hosting and Service Management Supplier.

Early design work with suppliers has begun, and delivery of the full capability remains planned for June 2022. This will be followed by the migration of the existing TCoS certificates to the new ECoS certificates, a huge undertaking for which plans are already being formulated.

Dual Band Communications Hubs (DBCH)

Overview and benefits

DBCH have the capability to overcome some of the challenges holding back the smart meter roll-out, such as weaker signal strength in buildings with thick walls or in blocks of flats where the meter is at the other end of the building and potentially out of range. Their deployment will bring an additional 25% of properties in Great Britain within the scope of the smart metering programme, extending the coverage and benefits to approximately 95% of all premises. DBCH will improve the meter installation process by removing the need for on-site assessment visits and reducing the number of failed installations caused by the limitations of Single-Band Communications Hubs.

2021/22 update

DBCH went live as scheduled in Q3 of 2020. We are now implementing firmware updates (Great Britain Companion Specification (GBCS) 3.2) and providing detailed progress reports to our customers at industry feedback meetings. The firmware implementation is due to be completed in 2022, subject to further testing and approvals. We are applying lessons from the DBCH and GBCS 3.2 roll-outs to other projects such as the NEP and the Switching Programme.

SMETS1 migration

It is our responsibility to transfer more than 16m first-generation SMETS1 meters onto the DCC network so that all smart meters become interoperable and consumers continue to receive smart benefits when they switch energy supplier. Where meters have become 'dormant', losing their smart capability, we help suppliers to restore that.

During the year we significantly increased the number of meters migrated, in one of the most complex migration projects undertaken by a national infrastructure provider. By the end of the financial year almost 3.9m meters were successfully enrolled on the DCC network. Of these,

Enrolled Meters		IOC	MOC	FOC	Total
Cumulative		**2,805,206**	**1,094,681**	**-**	**3,899,887**
	Active	1,955,309	192,318	-	2,147,627
	Dormant	849,897	902,363	-	1,752,260

1.75m were previously dormant and can now have their smart functionality restored.

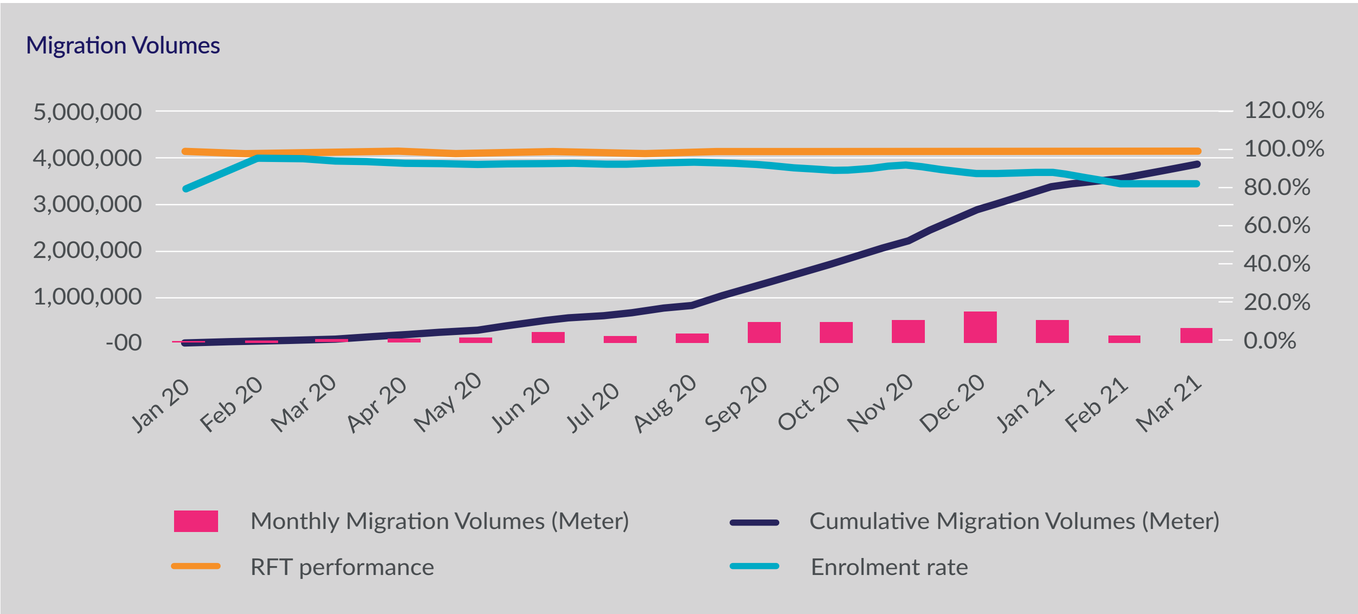
Initial Operating Capability (IOC) was implemented last year and we have now successfully commenced the remaining two migration phases. The Middle Operating Capability (MOC) began in August 2020. Code capability for the Final Operating Capability (FOC) was delivered in February 2021, with the first migrations due to start in April 2021.

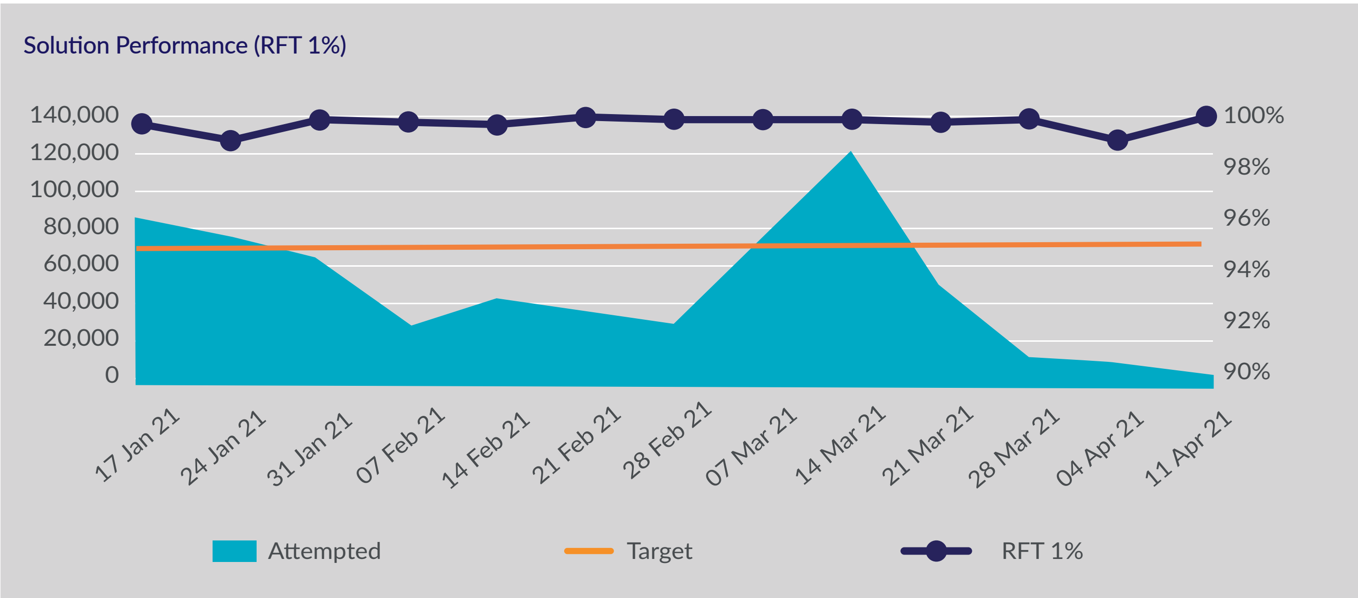
We are now prioritising migration of the remaining dormant meters and aim to complete this by the end of August 2021. Migration of active meters will be completed within the 12-month timeframe stipulated by Ofgem.

Our migration performance remains strong, with 99-100% of Requests for Transfer (RFTs) successfully delivered every week. RFT measures how well the DCC system dealt with the migrations of meters.

DCC's Migration Control Centre (MCC), which prepares meters for migration in partnership with the industry, is now well established, as is our Early Life Support (ELS) capability, which provides real-time monitoring after migration to ensure a seamless transition.

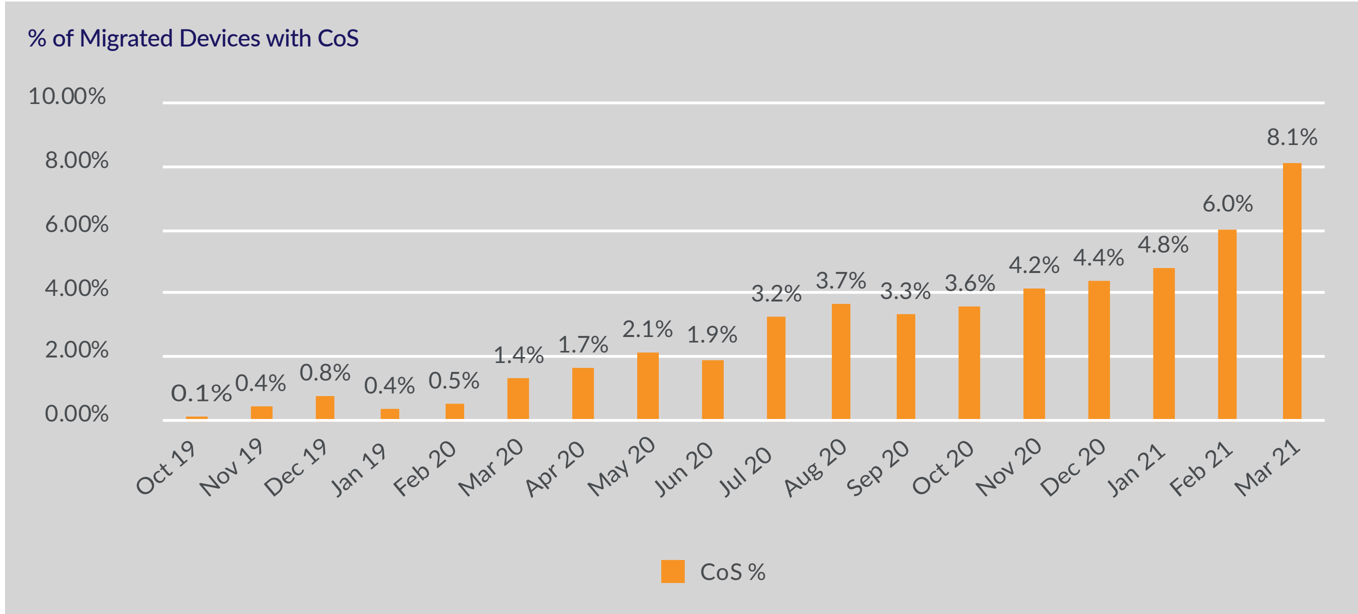
It is vital that energy suppliers make smart meters fully operational as soon as possible after migration. As of 31 March 2021, 90% of dormant meters had their smart functionality restored following migration and we are working closely with the industry, BEIS and Ofgem to improve this position. The success rate for active meters is 99%. 316,154 meters on our network have registered a change of supplier since migration, representing 8.14% of the total as at the end of March 2021.





The DCC provides regular reports on migration and other operational matters at various industry forums including the Implementation Managers Forum (IMF) and the Smart Meter Delivery Group (SMDG).

Users of migrated SMETS1 devices are also taking advantage of their ability to change supplier. Our Change of Supplier (CoS) measure shows the total percentage of migrated meters that have changed suppliers since joining the DCC network, reaching 8.1% of devices changing supplier as of March 2021.



Switching

Faster, more reliable switching for Britain

We have continued to make good progress in implementing Ofgem's Faster, More Reliable Switching Programme which will give consumers a much quicker and more dependable way of switching energy suppliers – the Central Switching Service (CSS).

During the year we successfully passed several key milestones (detailed in the table below) and supported the re- planning of the programme requested by the industry because of the COVID-19 pandemic. As a result, the 'go-live' date for the new service has been rescheduled to the summer of 2022. Overall, the programme continues to progress well and is in a strong position to achieve its new launch date.

As Ofgem's key delivery partner, we are helping to bring about significant change in the energy market and make next-working-day switching a reality. At the heart of this improvement is the new CSS. It will replace the existing separate gas and electricity switching services and will be operated by the DCC in its early years, ensuring the stability of the network and efficient delivery.

When fully implemented, the CSS will improve pricing and quality of service for consumers, help to unlock innovation, create a more competitive energy market and provide scope for wider applications. It will also support Government ambitions to increase the digitisation and decentralisation of the energy market. It is estimated that the total economic benefit to domestic consumers of improved switching will be up to £1 billion by 2035.

Testing programme

Action	Status
Pre-Integration Testing	Completed (February 2020)
SIT of the CSS and its interfaces	Completed (March 2021)
Testing of transition processes to new system	Completed (March 2021)
Non-Functional Testing of the data migration processes	Due for completion (April 2021)
User Integration Testing (UIT) Part 1: Entry Process Testing (ensures that energy suppliers can connect to the CSS)	Due for completion (May 2021)
UIT Part 2: End-to-End Testing (ensures that full switching process works as designed)	Due for completion (May 2021)
Go Live date for new system	Due (Summer 2022)

We are working closely with our four contracted service providers (Landmark, Netcompany, Capgemini, Expleo) and the Smart Metering DSP (CGI) and are on track to move the programme forward within the revised timeframes and budgets agreed as part of the re-plan. Industry participation will increase markedly with the start of UIT, when over 110 energy suppliers will take part.

Address data

We are paying considerable attention to the quality of address data for domestic consumers, which is essential to improve the switching process. We have completed the initial work of automatically matching the industry's address data to a "gold standard" address database. We have also completed the pilot phase of our interactive address matching project. This is focused on improving the quality of addresses which are more difficult to match. We are working with source data providers to improve overall data quality by ensuring that meter points are accurately matched to premises' addresses. This will save consumers time and inconvenience when switching, as well as reducing costs for suppliers.

Stakeholder engagement

Effective engagement and a spirit of collaboration are is essential if we are to make the transition to faster, more reliable switching. During the year we hosted two 'Switching Summits' with the industry, held entirely online. These gave us valuable input and insights from key stakeholders about various aspects of the programme.

Responding to demand from our customers, we also organised several shorter, focused online briefing sessions on topics of interest, such as service management of the CSS. We continue to support the programme's Consumer Journey Forum, which was set up to ensure that energy suppliers and the programme team understand the impact on consumers of introducing the new switching arrangements. During the year, we provided content and administrative support for meetings, as well as conducting independent research into consumer views on switching and the barriers they experience.

We conduct regular satisfaction surveys to gauge where we can improve our approach with stakeholders. Overall levels of satisfaction remained steady at around 70% over the last year.

Market-Wide Half-hourly settlement (MHHS)

MHHS is an Ofgem-led programme, with Elexon as its key delivery partner. Settlement is the process by which the electricity volume forecasted by generators and suppliers in advance of a period is then calculated against actual data recorded from that period. MHHS will match the amount of power suppliers buy to the actual amount used by consumers in each half-hourly interval. This is a vital step in Britain's transition to a flexible energy system, enabling smart tariffs and demand-side response linked to home energy management, smart appliances and EVs.

Key decisions made by Ofgem in the final business case

The preferred method for introducing MHHS is called the Target Operating Model (TOM), which introduces significant changes to settlement arrangements and industry codes.

- **Ofgem will introduce MHHS based on the TOM**
- **MHHS will be introduced for electricity export and import settlements, with the same transition arrangements for both**
- **Implementation is expected to take four years and six months, with completion in October 2025**
- **There will be a legal obligation on the party responsible for settlement to process domestic consumers' half-hourly electricity consumption data for settlement purposes:**
  - Microbusiness consumers will not be able to opt out. Existing customers will retain the data sharing framework that was in place when they had their smart or advanced meter installed
  - Domestic customers may opt out and data will be collected daily. Existing domestic customers will retain the right to opt out to monthly settlement until they decide to change electricity supplier or contract
- **Ofgem has confirmed that Elexon will take the role of Senior Responsible Owner (SRO) and will be responsible for overall programme management**
- **Ofgem has approved that MHHS programme management costs will be recovered from suppliers on a per meter point basis[1]**
- **The initial settlement run (SF) will take place between 5 and 7 working days after the settlement date. The final settlement run (RF) should take place four months after the settlement date. The post final settlement run (DF) should take place 20 months after the settlement date (if required)**

Impact on the Industry

The MHHS draft business case relies on exposing energy suppliers to the exact half-hourly costs of customer consumption, rather than using estimated consumption based on patterns of usage. This will incentivise electricity suppliers to offer Time of Use (ToU) tariffs, which in turn will encourage customers to shift load patterns. This will help to balance the grid as more intermittent generation comes on the system and reduce the need for new network infrastructure investment. It is estimated that the value of this to the industry will range from around £1.5bn in 2026 to £4.5bn by 2045, set against an estimated £88.5m cost to implement MHHS.

Impact on the DCC

To support MHHS, the DCC will need to introduce significant system changes, including retrieval of 48 half-hourly reads each day from both the import and export registers of every applicable meter, plus an additional daily check if required. On current assumptions, the Meter Data Retrieval Service (MDR) and the electricity supplier will also need to access this data for settlements and billing purposes respectively. The MDR will be a new DCC user appointed by the electricity supplier and required to comply with the SEC for the purpose of collecting data for the settlements process.

For DCC to implement these changes, a SEC modification proposal will need to be raised and approved by Ofgem. The modification will be subject to existing SEC governance and new industry governance arrangements that are currently being introduced by Ofgem. Implementation costs and additional ongoing costs will need to be factored into our price control arrangements.

The changes implemented by the DCC will be an integral part of a much wider industry change programme, largely based on the Balancing and Settlement Code (BSC), but also affecting the Retail Energy Code (REC) and Distribution Connection and Use of System Agreement (DCUSA).

1 Code change costs will continue to be funded in the normal manner for other codes.

Key milestones

- Ofgem full business case Decision - April 2021
- SEC change process started – April 2021
- SEC change process completed – January 2022
- Non-SEC changes delivered - Nov 2022
- DCC DBT completed – January 2023
- MDR UIT completed - April 2023
- Central Settlement System Ready for Migration – September 2024
- Start of Unmetered Supply (UMS)/Advanced Migration – October 2024
- Start of Smart/Non-Smart Migration – November 2024
- Migration complete – October 2025
- New settlement timetable – November 2025

Network Evolution Programme (NEP)

Overview and benefits

The NEP focuses on the future of DCC operations in the smart metering environment. It explores how new processes, systems and technologies can improve the live service, reduce the operating costs of the DCC system, and, above all, secure the continuity of a critical part of the UK's national infrastructure.

The programme comprises two key parts:

- **Network Evolution DSP:** Designing and procuring data services which are secure and sustainable, at a reduced operating cost, capable of rapid and cost-effective change in response to market and customer demand. This work will include investigations into how cloud computing and microservices could contribute to a new design for the Data Services Provider (DSP) to de-risk overall re-tendering activity
- **Network Evolution CH&N:** Designing and procuring future-proof CH&N. We require a technology with a longevity of at least 15-20 years so that full operational life benefits are realised from the point of installation. It should also provide roaming and switchable capability to increase resilience and minimise industry costs and inconvenience to the end consumer

The NEP is driven by advances in digital technology which continue to reshape the energy landscape. We must make sure that the DCC network keeps pace with and prudently anticipates that change, while also maintaining continuity of service to the energy industry as contracts with service providers expire. These issues are being addressed urgently for a variety of reasons:

- The contract for the provision of the DSP service with CGI is coming to an end and must expire by October 2024. The first of a maximum of three one-year extensions is now being negotiated
- The existing 2G/3G networks, in use in the South and Central regions, have been superseded by the introduction of 4G networks, with 5G on the horizon. There is a high probability that the older networks will no longer be supported or maintained in the medium term and DCC will need to modernise its communications provisions accordingly
- SMETS1 and SMETS2 assets have a 15-year life, so the earlier an enduring technology can be made available in the ecosystem, the lower the amount of scrappage and the longer the economic life of assets
- BT's contract for the Smart Metering Key Infrastructure (SMKI) security service, also known as Trusted Service Provider (TSP), is due to expire in April 2022. A new tactical solution will be implemented before this date on a three-year plus one-year agreement while an enduring TSP programme is set up to re-procure all TSP Services by April 2025
- There is a continuing need to drive competition within the supply chain to reduce costs, improve service and accelerate continuous improvement by, for example, adopting a future testing strategy which provides automated set up

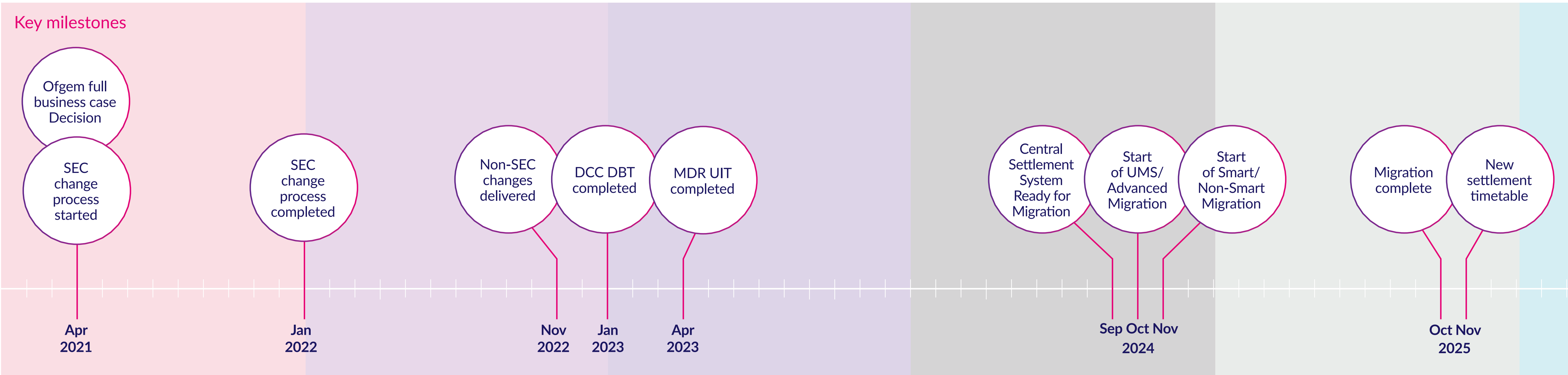
The NEP aims to ensure that customers always obtain value for money and that opportunities for competition are integral, so that all service providers are always subject to competitive pressures. We have agreed the CH&N outline business case with BEIS, the SEC Panel and sub-committees. We continue to engage with customers as we prepare the final business case for BEIS consideration and develop the outline business case for Network Evolution DSP.

Timescales

As at 31 March 2021, the overall programme was in the early phases of development, as follows:

- DSP was at the scoping phase, to define what the future business, technology and security landscapes, opportunities and challenges look like over the next 10-plus years, and consultation is going on with the industry on the future services to be delivered. The new DSP will be procured to be built, tested and deployed at the earliest opportunity, and by October 2024 at the latest.
- CH&N was at the shaping stage, running a procurement for 4G Single and DBCH that will come to market in 2023, and the capability to upgrade this with further services such as roaming and switching soon after.

The programmes will deliver over the next three or more years. Other than for next-generation communications hubs and test automation, precise timescales are yet to be confirmed and more work is required on the approach to be adopted in each area.



2 The industry may need to wait until the final MPAN has reached the RF run (~14 months) before the new timetable can be fully implemented.

EV charging

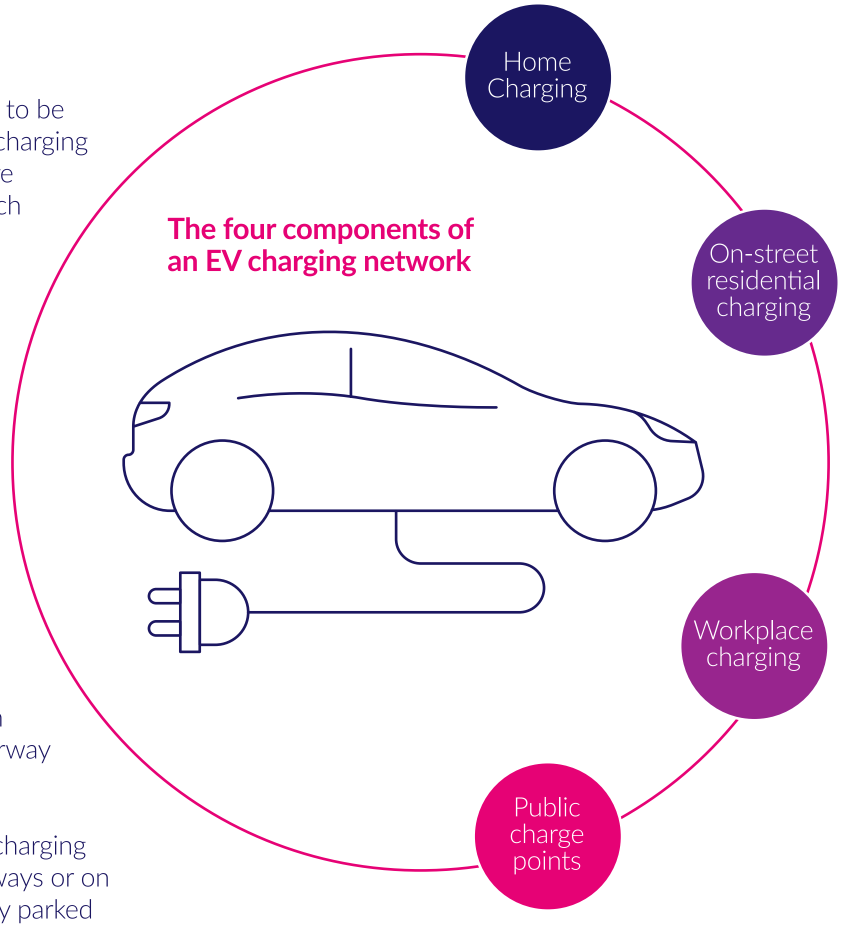
With the sale of new petrol and diesel cars due to be phased out by 2030, the need for a robust EV charging network is urgent. Government departments are currently studying how to build and operate such a system.

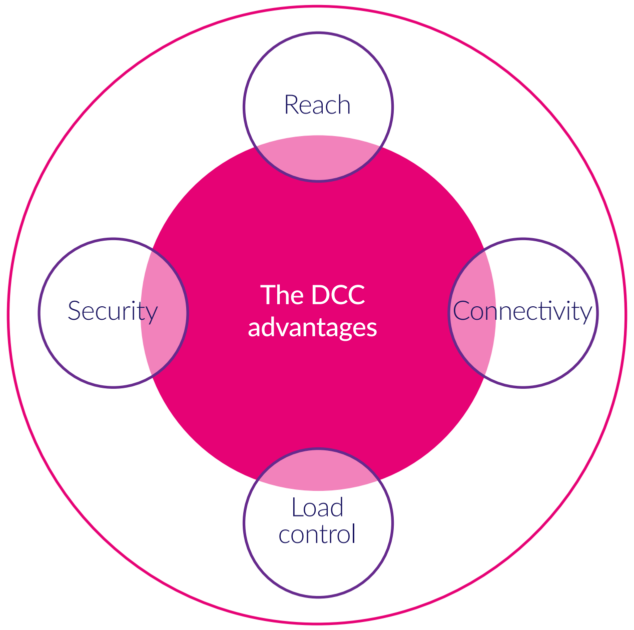
An EV charging network needs four components:

- Home charging – on a household driveway (including work or fleet vehicles at home)
- On-street residential charging - at home but on the street because there is no driveway
- Workplace charging – when parked at work
- Public charge points – fast chargers used on the go to extend journeys (typically at motorway services or garage forecourts)

It is estimated that, by 2035, up to 90% of EV charging will take place at home (either on private driveways or on the street) or at work, where vehicles are usually parked for several hours. To meet this demand, more than 20m private charge points will need to be deployed across the country.

To make this radical transition, the Government will have to create the right conditions for private companies to ramp up investment and ensure a robust market framework that protects consumers.





This new market must be innovative and competitive, avoiding restrictions on specific technologies and providers, with strong consumer, data privacy and cyber security protections. It must also include mechanisms to manage and control the stability of the electricity grid.

As the operator of the central wireless network for smart metering across Great Britain, the DCC can meet all these challenges. We offer the following advantages:

- **Reach –** our network already covers more than 99% of all premises in Britain. It is pre-built, ready and scalable for 53m smart meters in 30m homes and small businesses.
- **Connectivity –** the DCC network can send and receive messages and data to and from 'smart devices' such as EV chargers, without using the internet. It can instruct these devices to undertake certain tasks and processes.
- **Security -** our smart metering architecture has been developed closely with the NCSC (part of the Government Communication Headquarters (GCHQ)) to ensure that the highest standards of security controls are built into the design.
- **Load control** – the data flowing across the DCC network enables the management of the electricity system. Network companies can control the flow of electricity (turn off, turn on, turn down, turn up) to smart devices such as EV chargers. By balancing the local grid and enabling demand side response, we can protect the grid and optimise the use of renewables.

The DCC is uniquely placed to connect and communicate with home and workplace EV charge points in a secure way that protects consumers and market participants and helps manage the demand on our electricity system which is expected to double by 2050.

Our network is a nationwide platform that has already been built and paid for by consumers. Using it to support the roll-out of EVs will maximise a public asset and provide a vital connection between the country's energy and transport systems.

Innovation and re-use

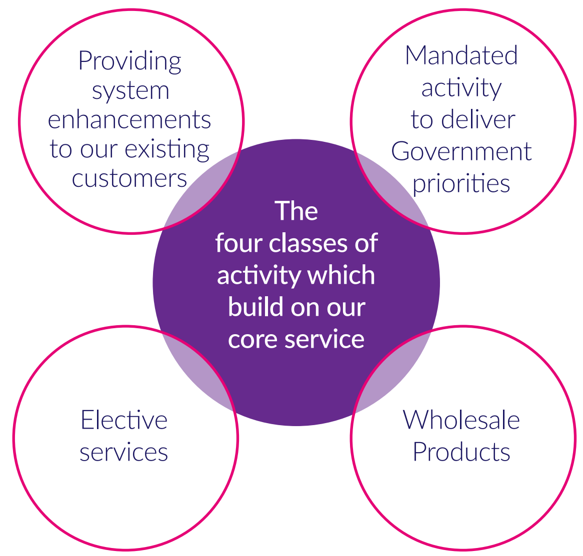
The DCC remains committed to the delivery of the programmes which have been mandated by the Government and Ofgem, ensuring their efficient and high-quality operation. We also continue to work with industry governance bodies to consider potential modifications. During the year, we have taken a cautious approach in considering how to support competition in the energy market and identify opportunities for re-use, because we believe our primary focus should be the delivery of our core regulated services. This view has been endorsed by our customers and other stakeholders, including Ofgem.

We have concluded that there should be four classes of activity which build on the core services:

- **Providing system enhancements to our existing customers**
  Enhancing existing facilities, such as the DCC Test Labs, and building new development tools, e.g. DCC Boxed, to enable our customers to deliver their smart metering obligations more cost-effectively or develop innovative products and propositions for their consumers. There is evidence of demand for these services already; once built, we would charge customers at the point of use, recovering the initial costs of development and over time generating a return
- **Mandated activity to deliver Government priorities**
  Working with the Government and Ofgem to secure new mandates for additional uses of the smart metering infrastructure or to deliver further transformational change programmes to implement policy objectives. Immediate prospects include a role for the DCC in providing a common, enabling platform for EV charging. We also have several additional potential projects under discussion with BEIS relating to topics such as fuel poverty, energy efficiency, and asset registration
- **Elective services**
  Redesigning the existing Elective Communications Services (ECS) process to create an effective mechanism through which we can deliver tailored capability or enhancements for specific customers on a bilateral and commercial basis. Where there is subsequent demand from other customers or the products appear to be generally applicable, this may provide a route through which generic capability can be developed and sold on to customers and other users in the form of wholesale products
- **Wholesale products**
  Developing additional wholesale products as demonstrators of the capability of the DCC platform, where the opportunity does not arise through ECS and with emphasis on the requirements of other DCC users and non-energy settings

We believe that this step-by-step approach of examining opportunities which are closely coupled to our key capabilities today is the right way to create additional value from the investment made by the wider industry and hence by the end consumer. Delivering products which are of value to customers and stakeholders will also help to enhance the DCC's reputation.

We see wholesale products as a longer-term aspiration, and not an area where we would focus any immediate time or resources. Proving our capability in delivering the first three objectives would be a pre-requisite for moving on to the provision of wholesale products.



Data services

We believe that enhanced data access and sharing will accelerate the nation's efforts to reach net zero carbon by 2050. During the year we continued to explore the value of the data generated through the smart meter system and in early 2021 we published a discussion paper, 'Data for Good'. This set out our ambition to develop a data exchange which would enable widespread access to system data from the nationwide, secure smart meter platform.

Combined with innovative licensing models, we believe this approach could maximise access to data securely and free of charge or at cost. We see this as a contemporary approach that would enable diversity of innovation, allowing new ideas to grow from everywhere, not just from private sector organisations that can more easily afford to access the data.

We identified key principles in taking this forward: collaborative, open and transparent development; consumer-centric thinking; robust governance; and using the DCC network as a benchmark for data standards and security.

In parallel to the launch of 'Data for Good', we undertook a series of activities to better understand data requirements, potential issues and technical developments. These included:

- Development and delivery of our first Application Programme Interface (API) interoperability checker with Citizens Advice. This tool uses system data to help consumers understand what type of meter they have and their choices when looking to change supplier
- Collaborating with the Open Data Institute to explore the data ecosystem and the consequences and ethics of smart meter system data use. This included hosting two industry workshops

- Participation in the Modernising Energy Data Applications competition as part of a successful consortium with Urban Tide, the Connected Places Catapult, University College London and the South East Energy Hub. This research project which commenced in March 2021 will assess the potential use of smart meter system data to help identify households in or at risk of fuel poverty
- Sending Requests for Information (RFI) to prospective suppliers for the build out of a data exchange to identify potential technical solutions and delivery costs

In the coming year we will continue to engage with the industry to explore the implications of system data access and the public benefit that can be derived from it.

SEC Modifications and ECS

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

In-life changes

In early 2019 we established an In-Life Change Team to focus on the faster and more cost-effective delivery of these services expected by our customers. The team has made many improvements to our processes. Working closely with the industry, Smart Energy Code Administrator & Secretariat (SECAS) and our service providers we are implementing several key changes, including the end-to-end digitisation of the SEC Modifications process; increased multi-party collaboration during the design phase; key performance indicator (KPI) reporting to track delivery: and streamlined processes to enable faster delivery.

Throughout this financial year, we continued to improve our process and system designs. During the next financial year (2021/22) we plan to run a series of pilot projects with customers to test a full 'self-service' capability. This will allow SEC Modifications and ECS changes to be delivered in a significantly shorter time at a much lower cost.

At our high-tech testing facility in Manchester we have the right specialist expertise and equipment to support the SEC Modifications process and ECS improvements. All regional Wide Area Networks (WAN) are available in this location.

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SEC Modifications

In accordance with the SEC, we are required to deliver two SEC systems releases each year. They deliver any change requests which affect the DCC system and are governed by the SEC Panel, with oversight from Ofgem. The June 2020 and November 2020 SEC releases both went live on time and under budget.

All SEC Modifications go through several governance workshops and industry consultations. Customers can discuss the requirements, solution options, and cost implications at multi-party working groups. The DCC and SECAS produced a significantly higher number of impact assessments for the industry during the year, providing customers with greater certainty throughout the change management process.

We have worked closely with SECAS to deliver better outcomes for the industry and have jointly developed various initiatives:

- **Prioritisation Matrix** – a mechanism to prioritise modifications and manage better any peaks in workload. The methodology was presented and endorsed by the SEC Panel in March 2020
- **Framework for Progressing Modifications** – a joint DCC & SECAS instruction manual, detailing the end-to-end process for making modifications and what is expected at each stage. It was agreed in March 2020 and has helped to establish a stronger working relationship between our organisations
- **Integrated Landscape Planning** – we have set up the System Integration (SI) Programme Planning Action Group to review release dates and discuss future releases. It held its first session in November 2020 to discuss improvements in our planning and delivery management. Further sessions will take place over the next quarter to inform planning for 2022 releases
- **Open Modifications Weekly Reporting** – a weekly report started in March 2020 which provides the latest status of all open SEC Modifications. These reports are shared with SECAS, ensuring that accurate and transparent information is provided to all stakeholders
- **Digital Collaboration Site** – a single site repository allowing SECAS and DCC to create shared documents which can be edited. This will be particularly useful for sharing Impact Assessments (IA).

Improvements to the ECS process

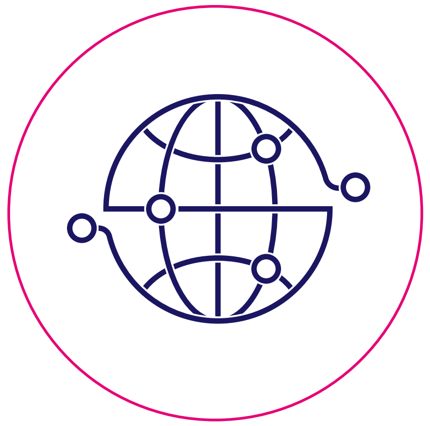
In 2020/21 we received just three compliant ECS requests from customers, none of which was taken beyond the quote stage. We are constantly reviewing our ECS process and fully understand the need to introduce new services quickly, without the burden of regulatory testing. We have considered several small-scale changes, for example a longer exclusivity period. But after further discussions with our customers, it became clear that wholesale overhaul of the ECS process was needed.

We are currently evaluating options and talking to our customers about the scope of any changes. We believe the outcome will be a much-improved process which will provide simple access to the DCC's connectivity and data, including all the necessary supporting services, for product development at cost. Any revenues generated will be passed back to energy industry customers in the form of reduced charges.

It is vital that ECS delivers the platform that customers need to launch new services and capabilities in line with their development cycles. We will be engaging with them individually and collectively on a regular basis to keep them fully informed or our progress.

Testing and experimentation

Brabazon House, our state-of-the-art test facility in Manchester, is now fully operational. One of the 19 labs is designated for our energy customers and their partners to experiment with services such as device pairing (e.g. in-home displays, prepayment meter interface devices, consumer access devices) and support manufacturers with pairing against both SMETS1 and SMETS2 meters.



Expanded test tools

Our customers and their supply chain partners have suggested improvements to the testing tools available at Brabazon House. The current testing tool (called GFI) was originally designed to simulate a communications hub. We are now working to develop GFI so that it can support testing in areas beyond smart meters, especially load control and EV charging.

Procurement and software development for this new product have started and we are working with our customers on the regulatory framework for pricing and rebates. This charging model will allow our customers to purchase the testing product without incurring additional software development costs. The new product, called 'DCC Boxed', will be available in the summer and will allow a much wider range of test uses, including load control, as well as interfacing with our other testing capabilities.

As the SMETS1 migration programme draws to a close, we will be able to work with our customers and their supply chain partners to test different device model combinations on the DCC platform and support their understanding of device behaviour. Our advice on the most common device model combinations is already helping their deployment strategies.

Customers must carry out a multitude of different tests on devices, firmware, interface, and business processes. This sometimes requires them to use third-party testing organisations. Our Manchester test facility can provide this type of service, and it is something which we are still considering (though at present we do not intend to provide smart meter certification).

We have developed our relationship with Smart Meter Device Assurance (SMDA) and have a good understanding of the mutual opportunities to deliver improved outcomes from our respective expert testing capabilities for the benefit of all smart metering participants.

Innovation events

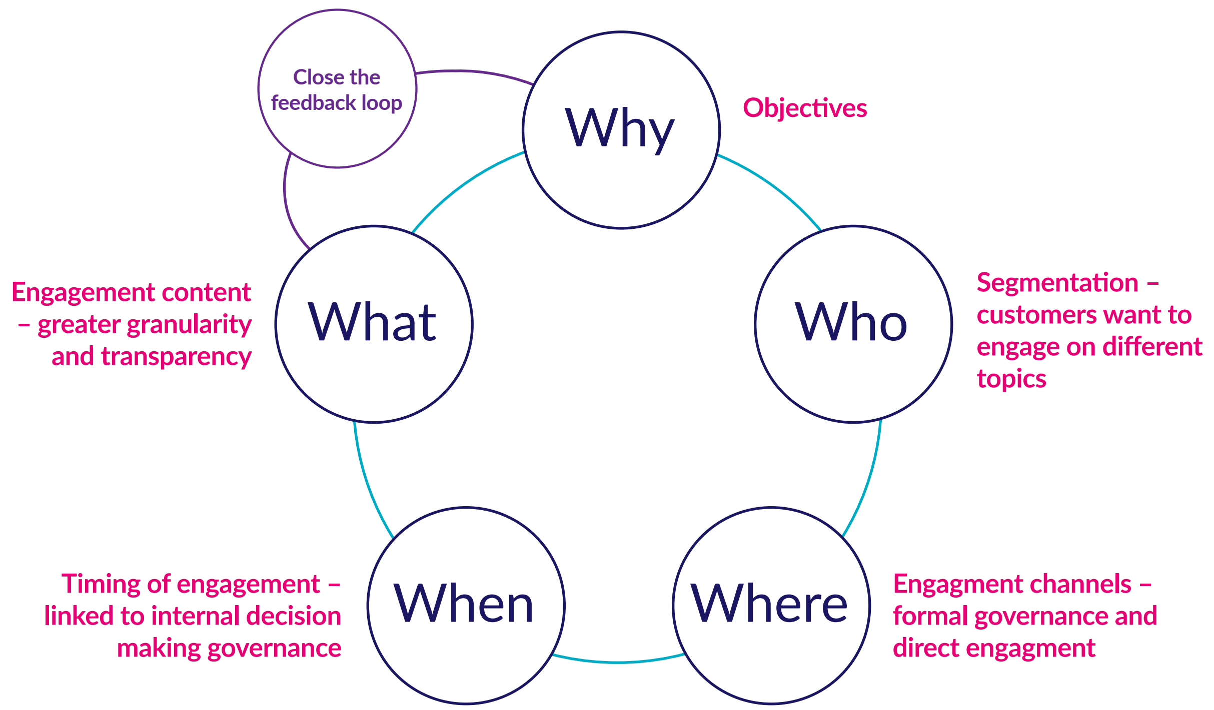
During 2021/22 we plan to run a series of events at Brabazon House entitled "Enabling Innovation". These will allow our customers to tap the knowledge and capabilities of DCC, our service partners, academics and innovators in a safe and secure environment to trial and test new ideas, including Proofs of Concept (POC). We have already tested a POC which demonstrates the capability of the DCC network to support home and workplace smart charging for EVs.

Delivering for our customers and cost discipline

Customer engagement strategy

Our vision is to ensure that our customers, who fund everything we do, are at the heart of the DCC. This was our first full year of implementing the customer engagement strategy we set out in 2019. Since then, we have made many improvements to the way we engage with customers and have started to embed that behaviour across the business.

Evidence of customer engagement is now mandatory as part of our internal Change Delivery Methodology (CDM). We have developed policies and processes to ensure that engagement with industry is timely and appropriate, that customer views are more explicitly considered in our decision making, and that we provide feedback on the outcome of our decisions. Our approach to customer engagement is set out in the diagram below.



For mandated activity, including SMETS1 migration and switching, our approach has been to inform customers of our activity, milestones and costs through SECAS and industry forums. We also held a 'Switching Summit' in October 2020 which focused on security, data matching, the path to UIT and consumer perspectives.

In the NEP, our customers are being offered the opportunity to shape our activity. We have piloted a more collaborative way of working as part of the CH&N programme, running insight webinars, consultations and customer surveys, as well as holding regular engagement with SEC committees.

We have developed a cost benefit analysis to share with customers, followed by consultation seeking their views, which has received a good response. We have applied the same approach to our DSP procurement programme and will continue to develop it for other programmes across the business.

We have delivered better financial transparency, overhauling our formal quarterly finance update to share more on forecast spend, variances and programme costs, as well as programme updates. In line with the commitments we made last year, we have shared business cases with customers for several programmes, including Test Automation, Production Proving and CH&N, and will continue to adapt format and presentation to suit our customers' needs.

We have started to broaden our reach beyond large energy suppliers, establishing a DNO-specific transformation programme, of which improved engagement is a key element, and we are seeing greater involvement from medium-sized and small energy suppliers in our engagement activity. We have also had increasingly positive feedback from some of the non-SEC forums, such as the Energy UK Smart Metering Delivery Board and the Small Suppliers' Forum.

Engagement on our five-year Business & Development Plan is a key annual activity. The workshops we ran in February were well attended and received by the industry, including energy suppliers, DNOs and service providers. These workshops give delegates the chance to shape our activity over the next five years and guide our future investments in the network and technology.

We are committed to better partnership with our customers so that they can contribute to our decision making. We are particularly focused on ensuring that they are better informed about the opportunities to feed in their views and about the rationale behind the decisions taken by the DCC.

Improving the customer experience

Customer journeys

During the year, we added another eight customer journeys to the group for which we measure a CES, bringing the total to nine. After a six-month baselining

period, we engaged an external provider (Gartner) to conduct a benchmarking exercise. This included an assessment of our current customer experience measurement approach and provided recommendations for improvement based on emerging trends and best practices. The review concluded that: "Smart DCC scores strongly in its CES with 'better than market-best' across all journeys for peer industries, utilities, telco and high-tech".

During the year, we have developed a more robust and holistic approach to measuring customer and stakeholder experience, providing us with a much richer data set from which to derive insights, improve services and provide support for pricing control.

Continuous improvement

More than 60 continuous improvement training projects were completed during the year, covering areas such as supply chain, billing, and incident management. Around 25% of staff have now been trained to Six Sigma 'yellow-belt' or 'green-belt' standard across all DCC functions.

Cost Discipline

Driving down costs

Our system for controlling supplier costs is like the Government's Legal Service Master Services Agreement (MSA), with some enhancements. Used in agreements with our strategic suppliers, it allows us to impose various penalties, including:

- Deduction of service fees for breach of minimum service levels
- Revenue retention for delays
- Reimbursement of testing costs where the service provider is at fault
- Reimbursement of DCC costs for service provider delays
- Indemnities that allow the DCC to reimburse third parties for service provider fault
- Enhanced scrutiny and intervention in cases of persistent service failure and material contractual breaches

Price control framework

While the Smart Meter Implementation Programme (SMIP) is overseen by BEIS, we are regulated and governed by our Licence and held accountable by the energy regulator Ofgem. One of the key aspects of our Licence stipulates that, as a monopoly, we must ensure that our customers obtain value for money from their contribution to the delivery of the SMIP and other activities covered by the Licence, such as faster switching. The DCC is subject to an annual process of scrutiny under which we are required to demonstrate that money has been spent in the most economic and efficient way.

As part of that process, we report to Ofgem in July each year on all of the costs that we incurred during the previous Regulatory Year, together with an explanation for any material differences between the actual costs incurred and the forecast costs agreed with Ofgem in previous submissions. Ofgem reviews these costs and has the power to refuse any which it does not believe are justified. Last year, £3.4m was disallowed out of a total of £475m.

We strive hard to deliver value for money for our customers in everything we do, particularly in controlling our external costs which are the largest cost component for us. The External Contract Gain Share (ECGS) mechanism incentivises us to negotiate savings on our supplier contracts. In last year's price control process, we were allowed to retain £3.8m of these ECGS savings.

Our margin is at risk if we do not perform well against our targets on smart meter roll-out, switching and overall operational performance. If we miss milestones, we lose margin through mechanisms in the price control framework. Margin can also be adjusted upwards. Last year we were awarded £8.7m on baseline margin adjustment.

Throughout the year we worked closely with Ofgem as it developed and finalised its changes to the OPR. In March 2021, the regulator issued a final decision on the new regime, which changes the system performance incentives and adds new ones for customer engagement and contract management. We already have plans in place to respond to these new incentives. Over the coming year, we will review emerging information on how we are performing in these areas and take any further action that is necessary.

DCC Public

Our people

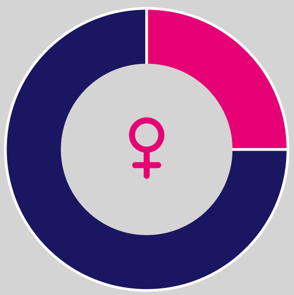
Our services depend on having the best people in place who can make a real difference in the country's move towards a low carbon future. They are our biggest strength.

The contribution of our employees during the year helped us to maintain business as usual in times which were anything but normal. Adapting and working flexibly throughout the COVID-19 pandemic, our people ensured that we reached our required milestones while working safely, flexibly and – for the most part - remotely throughout the year.

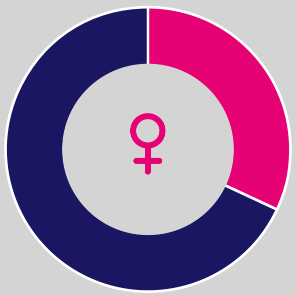
During the year, we employed around 600 people, keeping our offices in Nottingham and Manchester open throughout for critical workers and closing our Ibex offices only during national lockdowns. All colleagues were equipped to work remotely and securely from offsite locations, and we continued to recruit and retain a diverse workforce. Because our service is critical to national infrastructure, nobody was furloughed. We onboarded approximately 100 new colleagues using virtual inductions. We committed to making our people's wellbeing a central focus of our culture, offering homeworking support, virtual fitness classes and social events, including online talent nights and staff-recorded children's stories for colleagues with young families.

Employee gender diversity

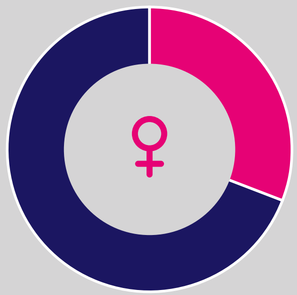
25% **of our Director level staff are women** (2020: 25%)



32% **of our senior managers are women** (2020: 28%)



36% **of our managers are women** (2020: 31%)



1 **of our 7 Board members is a woman**

4 **out of 11 Executive Committee members are women**

Gender pay

Hourly pay	2021	2020
Mean (average) pay differential	19%	20%
Median (mid-point) pay differential	25%	19%

Engagement and satisfaction

Our efforts to grow and develop our people revolve around three key themes: improving capability; developing our culture as an organisation of choice; and promoting diversity, inclusion and wellbeing for all staff.

During the year we introduced a continuous listening tool which has allowed us to gain more regular anonymous employee feedback on our progress and enabled our managers to get closer to the comments and act at a local level.

In our most recent annual survey, the DCC achieved an eNPS of +17 from our people as a recommended place to work. This represents a six-point improvement on the previous year.

Our annual survey also showed that:

- 96% of colleagues understand how their role supports our customers, clients and colleagues
- 91% feel their manager promotes a diverse and inclusive culture
- 90% believe their manager models the company's values and behaviours
- 88% of colleagues feel connected to their team

These are all improvements on previous scores, and it is positive that they remained at this level despite the disconnection and disruption of COVID-19 and remote working. However, we are committed to making further progress by:

- Better signposting to colleagues of existing training opportunities
- Improving our communication about coaching and mentoring opportunities
- Continuing to deliver our line manager training programme which ensures that managers are supported and developed and understand how to support their teams
- Embedding our new organisational development team into the business, to focus on education and training.

Social responsibility

As an organisation we actively promote the concept of social responsiveness through community engagement and good corporate citizenship.

Giving back is not only good for us, but it also demonstrates how we're being a responsible business using the power of our people and networks to be a force for good in society.

To that end, in the last year we have:

- Supported *Making the Leap*, a social mobility charity, training 20 DCC volunteers to provide job interview experiences to Black and Minority Ethnic students to help prepare them for their first steps on the career ladder.
- Raised almost £500 for the Trussell Trust national foodbanks, during the month of Ramadan, when our employees also promoted a positive and community spirit of Islam through video blogs, festive recipe demonstrations and Eid celebration pics from family homes.

Employee networks and groups

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

These include:

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

DCC was delighted to be shortlisted for a Chartered Institute of Public Relations (CIPR) Excellence Award in 2020/21 for our work of supporting staff wellbeing during the pandemic.

Risks

Overview of Risk Management and Internal Controls

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

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

Our Risk Management Approach and Governance

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

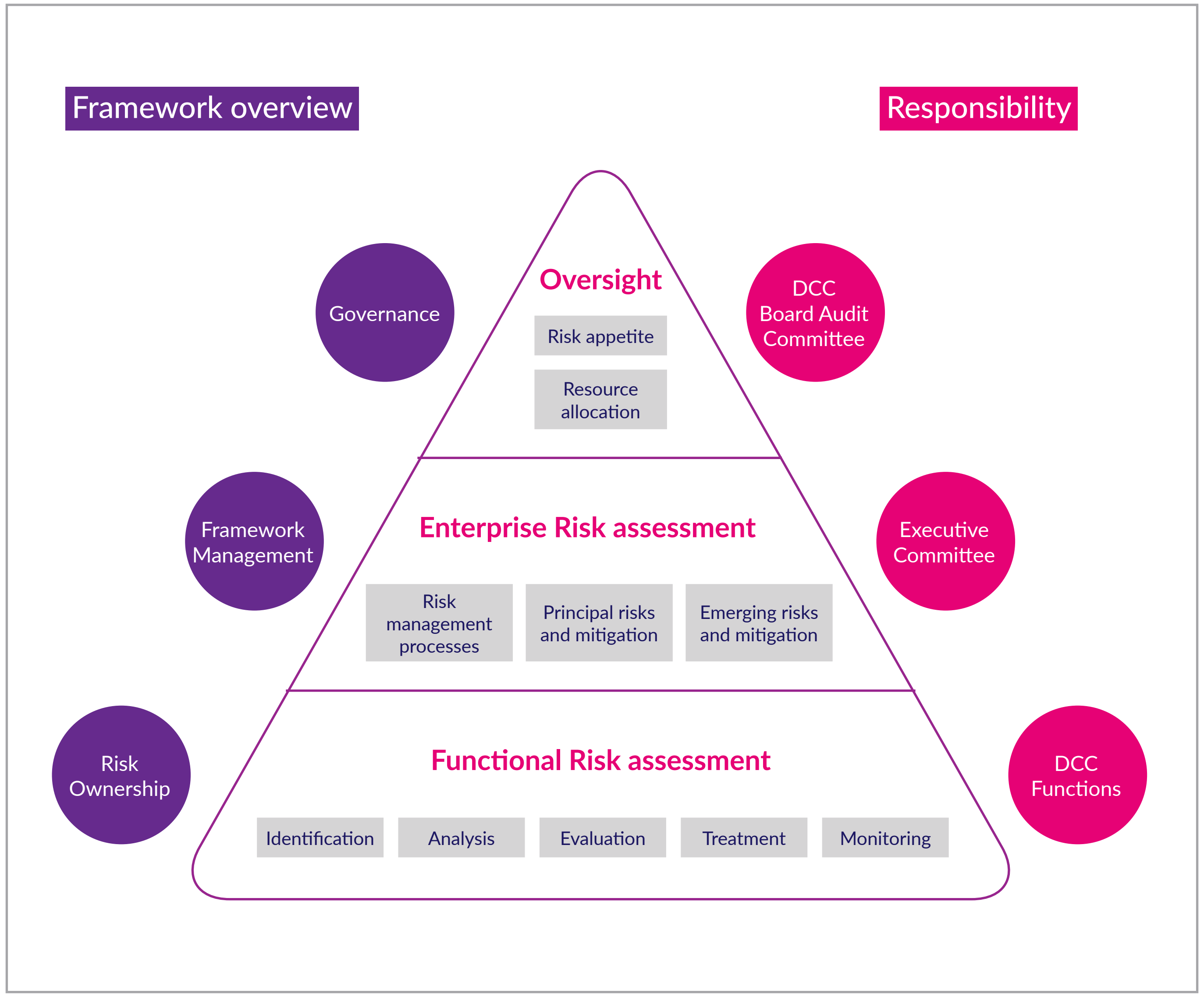
The DCC Board is responsible for approving the risk management systems and framework, setting the risk appetite, and ensuring the necessary resources are in place to manage risk effectively. The DCC Audit and Risk Committee (ARC) is responsible for monitoring the effective operation of the risk management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

The DCC Executive Committee (ExCo) is responsible for leading the implementation and operation of the risk management systems and framework within the DCC, and to develop the Enterprise Risk assessment representing the principal risks affecting the Authorised Business of the DCC. ExCo are responsible for monitoring the risk environment on an ongoing basis, including both principal risks and new and emerging risks, and to ensure that the Enterprise Risk assessment reflects the best available information.

Enterprise Risks are reviewed regularly by the ARC. Recommendations on risk appetite, remediation actions, and resource allocation are made by the ARC and approved by the Board.

DCC functions are responsible for day-to-day management of risk, and risk awareness and risk management are an inherent responsibility of all DCC staff. Each function is responsible for identifying, managing and reporting risk according to a standard risk assessment framework and to maintain a functional risk register detailing identified risks, mitigation actions and owners. Risk management and reporting is also embedded into key business processes, including::

- Business plan development and reporting
- Programme delivery governance and reporting
- Operational performance governance and reporting
- Financial performance governance and reporting
- Contract development and approvals including contract change
- Service Provider performance management and reporting
- Internal Audit and Compliance reporting



Principal and Emerging Risks

The principal Enterprise Risks facing the Company have been categorised into five areas:

Risk category	Key risks
Loss of Smart Meter Licence, following a revocation event or service failure	• A material DCC security incident or data loss • A persistent non-compliance with Licence or Codes • A significant consumer-impacting service failure (e.g. prepayment)
Cumulative reputational damage puts future Licence award and/or shareholder interests at risk	• Stakeholder perception of poor DCC value-for-money and cost management • Negative media reporting of DCC
Failure to deliver expected core business performance	• DCC performance constrains planned industry SMETS2 benefits delivery or SMETS1 programme outcomes • A material service degradation due to customer-introduced changes • Loss of key staff inhibits ability to deliver the business plan • DCC does not deliver sustainable operating margin • Inadequate Safety Health Environment (SHE) controls results in a material SHE incident
Failure to deliver expected network innovation and re-use performance	• DCC fails to secure stakeholder support for innovation and re-use plans
Solvency and liquidity	• DCC becomes insolvent or unable to meet financial covenants

Risk position and net movement in during RY2020/21 is summarised below:

Risk	Context	Mitigation	Net Move
Security	A security breach or data loss incident could have significant consequences for our customers and energy consumers and is a significant threat to the business.	• DCC is secure by design and assured by the UK Government and Security Services. The security framework and controls are regularly audited and tested, and security is a primary focus of the Board. DCC operates a SOC, which monitors and assures effective security controls across the DCC systems and network. Future security capability will be maintained and enhanced through the NEP.	→
Licence and Code compliance	DCC operates in a complex regulatory environment with many compliance criteria and ongoing change. A material compliance breach or persistent non-compliance with Licence or Code obligations could result in loss of the Licence.	• DCC operates a compliance management framework that ensures traceability of all Licence and Code obligations to a responsible business owner. Regular testing is conducted to assure compliance, and identified non-compliances are reported to the ARC.	↓
Consumer-impacting service failure	Energy consumers operating in 'prepayment' mode are dependent on digital vending services and correct function of the supply connect and disconnect service on the smart meter. A DCC failure to ensure service performance and continuity could result in a critical impact to consumers and in loss of the Licence.	• DCC operates a TOC which monitors potential service risks across the ecosystem including prepayment service performance, and proactively supports incident response.	→
Stakeholder perception of DCC value-for-money	DCC is a licenced monopoly and all DCC charges are passed through to our customers. A failure to demonstrate effective cost controls and discipline could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a regular cycle of finance forums with our customers, providing detail and transparency on our charging statement and costs. • DCC customers are engaged in decisions on costs through relevant industry forums including the SEC Panel and SEC Operations Panel. • DCC is engaged in ongoing work with customers and the regulator to improve the transparency and traceability of decisions on new activities and costs.	↑
Negative media reporting or perception	The Smart Meter Implementation Programme is a high-profile government policy and attracts significant mainstream and social media attention. An ineffective or un-coordinated approach to manage a crisis event or to address inaccurate or negative media reporting could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• The Company has established a collaborative approach with BEIS, Ofgem and industry partners to coordinate media response when and as appropriate. • Crisis management plans are established, and capability is regularly tested to assure performance.	→
DCC performance constrains planned industry activity or benefits delivery	DCC customers are dependent on the availability and performance of the DCC network and communications hubs to complete the smart meter roll-out. A material loss or degradation in DCC service performance could affect the planned completion of the smart meter roll-out and benefits delivery, resulting in reputation damage to DCC and loss of credibility affecting future Licence award. Performance in the North region has remained a key concern for our customers. Performance of relevant DCC services for DNOs has also become a critical concern.	• The Company operates a standard Change Delivery Model and governance structure to provide control over all programme activity and assure delivery of expected functionality to enable the smart meter roll-out. • Operational service performance is monitored by the TOC which identifies potential service risks across the ecosystem and proactively supports risk mitigation and incident response. Operational planning and monitoring processes are in place to assure network and supply chain capacity is sufficient to meet the planned demand from our customers. • Service Provider performance, which underpins all aspects of DCC service delivery and operations, is regularly monitored and risks and issues are reported to the Board. • The North region service recovery programme has achieved the majority of the critical success criteria agreed with industry. Ongoing work is in progress to drive further improvement. • A performance recovery programme has been initiated to address DNO service performance issues.	↓
DCC fails to deliver SMETS1 programme outcomes	The SMETS1 programme involves the migration of a complex estate of circa 15m legacy smart meters from a variety of different service platforms onto the DCC service. The inherited legacy meters and their relevant service platforms include known and unknown associated risks which could affect DCC's ability to migrate and operate the meters to meet the overall programme objectives.	• The DCC Board has established a SMETS1 sub-committee to oversee programme delivery risks. • SMETS1 device migration activity is controlled by the MCC. Effective planning, management and control capability for high-volume migration activity has been proven. • The outstanding SMETS1 migration cohorts continue to represent a significant delivery risk, and robust programme controls and oversight remain in place.	→
Customer introduced changes	The smart meter ecosystem includes meters and other devices that operate on the DCC network but are not controlled by the DCC. Change introduced or deployed onto these devices by DCC customers has the potential to cause material service degradation across the network. A failure by the DCC to appropriately manage or respond to customer-introduced service-impacting change could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a change coordination process with customers to reduce risk. • DCC encourages collaborative working with device manufacturers to test new devices or planned changes prior to deployment.	→

Key:
→ No change in net risk exposure
↑ Increase in net risk exposure
↓ Decrease in net risk exposure

Risk	Context	Mitigation	Net Move
Loss of key staff	Loss of key staff on critical programmes or operational activity could significantly disrupt business performance.	• DCC regularly surveys employee engagement, and improvement in engagement scores is included in Corporate objectives. • Company-wide development programmes support our 'one-DCC' culture and employee-retention. • Staff turnover and attrition are regularly monitored at DCC Executive Committee, and critical role succession planning is in place.	→
Operating margin	Below target performance against the OPR, or significant cost disallowance following the Ofgem Price Control determination could result in DCC failing to deliver sustainable operating margin.	• DCC has established robust internal planning, reporting and control processes to assure the financial performance of the business. • Business performance is reviewed regularly at the ExCo and Board meetings.	→
SHE and wellbeing	DCC operates across multiple sites with facilities including radio-frequency testing which are visited by multiple external parties. In addition, DCC has a duty to ensure that effective consideration and controls for SHE risks are in place across the DCC ecosystem and all relevant service providers. A failure to ensure appropriate SHE controls are in place and operated could result in avoidable injury or damage to people or the environment.	• DCC operates a 'zero tolerance, zero harm' SHE policy supported by a comprehensive SHE management system, including operational SHE controls, audit and inspection. • SHE controls and compliance, and staff wellbeing are regularly reviewed at Board. • Covid-19 safety has been a critical area of focus during RY2020/21. Robust controls are in place to ensure site safety for critical workers, and effective wellbeing support for staff working from home.	↓
Innovation and re-use of the DCC network	The Licence requires DCC to seek and optimise re-use of the DCC network and innovation in new services. A loss of confidence by existing stakeholders in DCC's ability to deliver the core smart meter service could inhibit the pace or direction of future re-use and innovation. In addition, if DCC is unable to provide a suitably attractive and flexible environment for innovation then existing or new customers may choose not to develop new products on the DCC platform.	• The Company is taking a measured approach to re-use and innovation, monitored by the Board, to ensure no detriment to core delivery. • Opportunities and scope for re-use and innovation are reviewed and prioritised in collaboration with key stakeholders including BEIS and DCC customers.	↑
Solvency and liquidity	Poor cash management or a significant fraud could result in DCC becoming insolvent or unable to meet its financial covenants.	• The Company operates robust financial planning and control processes. Financial stability arrangements are in place with the DCC parent company (Capita plc). • Fraud controls are regularly audited to ensure effectiveness and compliance.	→

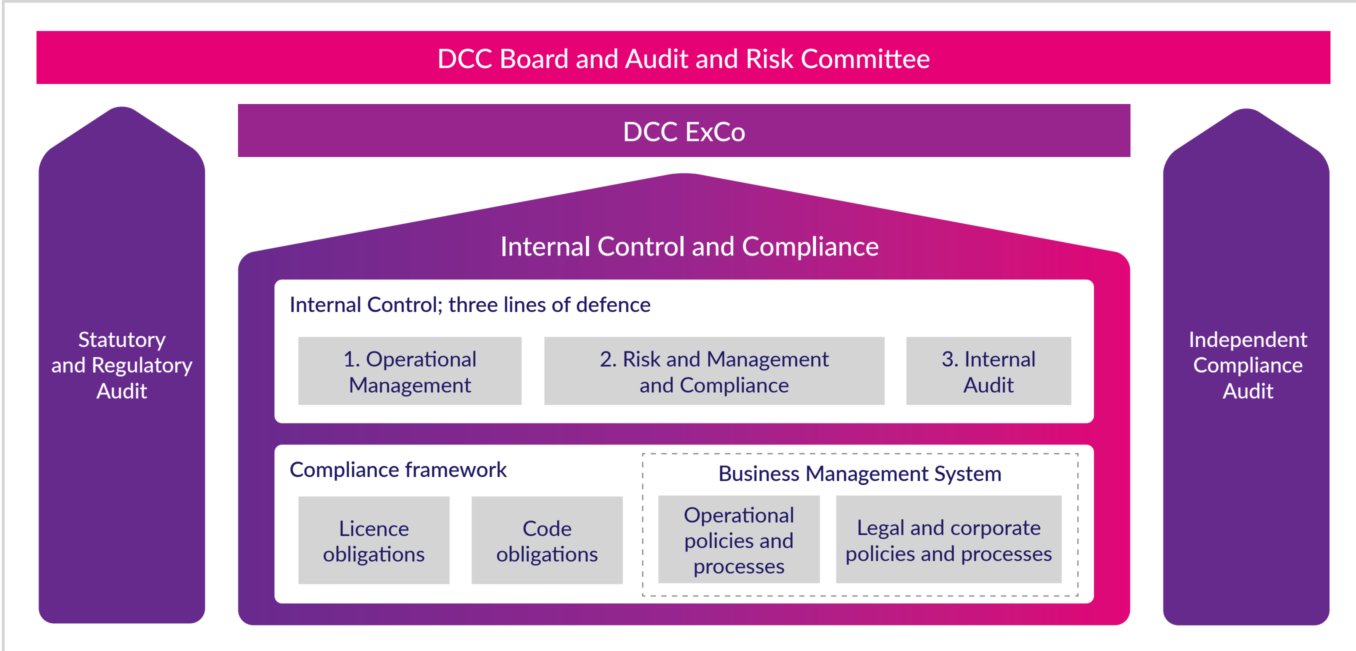
Brexit and Coronavirus

In addition to the principal risks highlighted above, the Board has also closely monitored the risks associated with Britain's exit from the European Union ('Brexit') and the coronavirus pandemic.

The primary risk associated with Brexit is disruption to the delivery of communications hubs to DCC customers as a result of customs or processing delay at the UK border. Mitigation actions including a UK buffer stock have been implemented to minimise the impact of supply chain disruption. No material disruption to supply has resulted following the end of the transition period on 31 December 2020.

DCC has implemented a comprehensive response to the coronavirus pandemic, including:

- Safe implementation of Government and Public Health England (PHE) advice on travel and social distancing
- Implementation and monitoring of business continuity plans to protect critical services, including designation of key workers
- Support for DCC staff working at home, including monitoring of wellbeing
- Enhanced security threat and IT services performance monitoring
- Preparations for a phased return to work are in progress, which will be implemented in alignment with updated Government and PHE advice.



Internal Controls

The DCC operates a robust internal controls framework to ensure that DCC complies with all regulatory, Licence, internal and UK Corporate Governance obligations. The DCC internal controls and compliance framework is described below.

DCC Internal Controls and Compliance Framework

The DCC Internal control framework is based on the three lines of defence model. Due diligence and quality assurance of the operation of internal controls is informed by both operational performance monitoring and reporting, internal audit and compliance testing activity, and through functional and enterprise risk assessment and risk mitigation plans.

Each DCC function is responsible for the documentation and management of its own operational policies, processes and procedures, and to maintain transparent and reliable audit trails. DCC policies are published to staff on the DCC secure intranet.

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

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

The Internal Audit function provides regular monitoring, testing, audit and reporting to the ExCo, ARC and Board for internal controls related activity including:

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

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

Sustainability initiatives and carbon footprint

Since 2018, when we first established and baselined our carbon footprint, the Data Communications Company has committed to maintain or improve carbon neutrality for its operations, year on year.

DCC and its Board of Directors are committed to achieving certificated carbon neutrality for emissions from Scope 1, Scope 2 and Scope 3 (business travel) from, and including, 2020/21 onwards in perpetuity. This will be maintained through:

- Continued commitment to our internal "Smart Green" activities that identify sources of emissions and inefficiencies, replacing them wherever possible with higher efficiency practices.
- Formal annual benchmarking for carbon footprint using an independent audit conducted by an independent and reputable audit organisation.
- Annual purchase of certificated carbon offset from Gold standard sources (to offset 100% of remaining emissions).
- Avoidance of highly derived carbon offset products; preferring offsets that have direct measurable carbon drawdown.
- Annual certification of Carbon Neutral status from the Carbon Trust.

For the regulatory year 2020/21, DCC was pleased to see a 25% reduction in its carbon footprint over the previous year (552.19 tonnes CO2 equivalents (CO2e) was the assessed carbon footprint for 2020/21, compared to 737 tonnes in 2019/20). The coronavirus pandemic stopped all but critical worker business travel and saw a dramatic reduction in our use of offices. The DCC has purchased carbon offsetting from Carbon Footprint Ltd, to match the 552.19 tonnes CO2e carbon footprint calculated for 2020/21.

These offset purchases relate to *UK Tree Planting + Protecting the Amazon*. This offsetting option combines an opportunity to plant trees in the UK whilst also helping to protect the Amazon rainforest – the largest remaining rainforest in the world. For each 1 tCO_2e offset, one tree is planted in the UK and an additional 1 tCO_2e is offset through the Brazilian Amazon Verified Carbon Standard (VCS) Reduced Emissions from Deforestation and Degradation (REDD) project, to guarantee the emission reductions. In the UK, the trees are typically planted across school grounds, parks, farms, woodlands and other biodiversity sites, providing wildlife habitats and often bringing educational and community benefits.

3 All DCC's operational activity takes place within the UK.

Financial performance

Overview

Value for money

During the year we continued to deliver against our strategic aim of providing value for money for customers by focusing on three key areas:

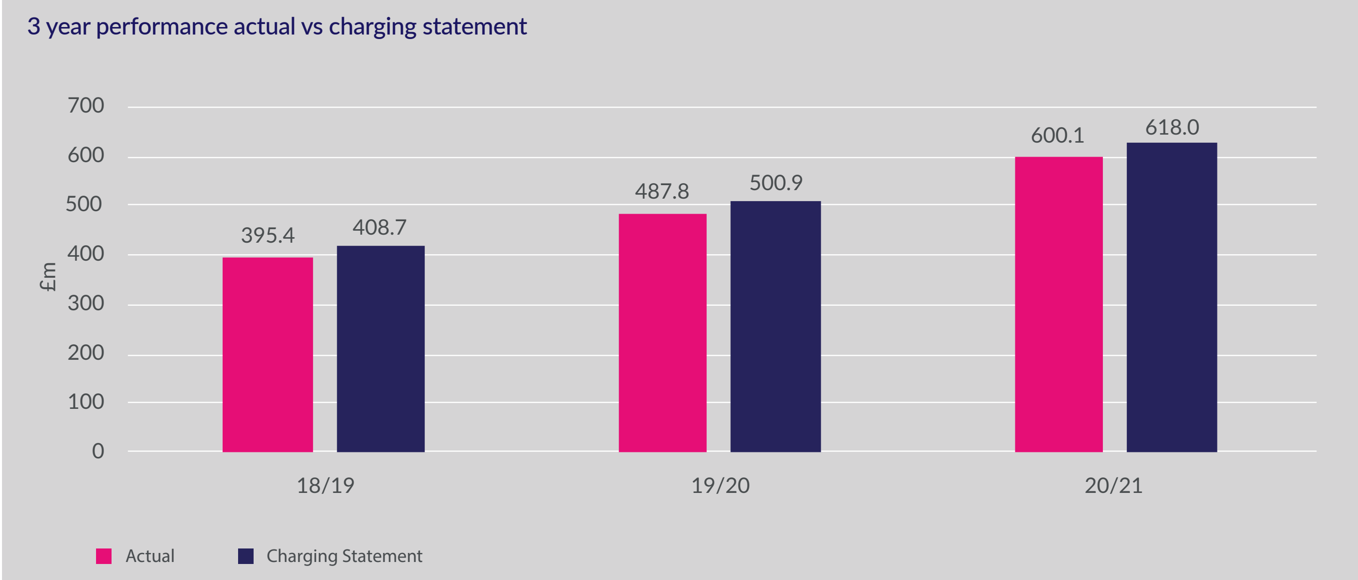
- Continuous improvement of cost forecasting, to ensure charges set at the beginning of the year are at a reasonable level with minimal risk of having to re-open the Charging Statement during the financial period
- Commitment to cost control throughout the year and achieving cost savings through the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

Supplier payments

We are required to report to the Government on our payment practices and although not a signatory of the Prompt Payment Code, the Company is committed to making payments to suppliers within a reasonable timeframe. This has been especially important during the COVID-19 crisis where many businesses are struggling with cash flow. In April 2020, we made a commitment to pay 97% of all valid invoices within 30 days of receipt (from 60 days in the prior year) and this has been consistently achieved throughout the year.

Summary of financial performance

We operate on a nil profit model whereby revenue is equivalent to costs incurred plus margins earned in delivering and operating the smart metering communication service. Incurred and forecast costs as well as margins are assessed by Ofgem through the annual price control exercise and any resulting adjustments to costs and margin are made in a future year. Therefore, the Directors consider costs to be the primary driver of the Company's financial performance.



	Charging statement related costs- Actual			Statutory reported costs- Actual		
	2021 (£m)	**2020 (£m)**	**YoY change**	**2021 (£m)**	**2020 (£m)**	**YoY change**
Key suppliers (including associated finance costs)	442.7	337.7	31%	282.1	299.0	(6%)
Other suppliers	32.8	34.7	(5%)	32.8	35.9	(9%)
Administrative costs	124.6	115.4	8%	127.2	112.7	13%
TOTAL	**600.1**	**487.8**	**23%**	**442.1**	**447.6**	**(1%)**

DCC Public

Charging statement view by Programme

Charging statement view of costs

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

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

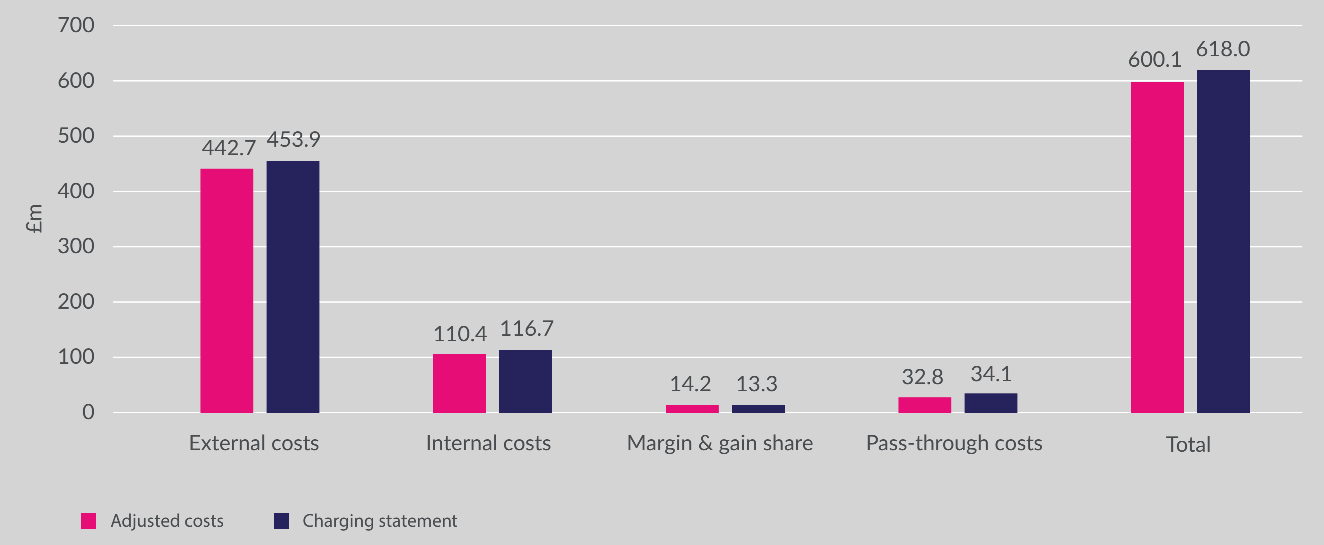
- Third full year of service provision by key suppliers for both the SMETS1 and switching programmes. This contributes to 67% of the overall year on year increase and 73% of the year on year increase in costs with key suppliers.
- Resourcing costs increased by 5% to support key programmes, and 'Passthrough cost' increased by 6% (primarily Alt HAN Co)

Statutory reported results have decreased 1% compared with prior year. This is the second year that the annual value of invoices from our key suppliers has surpassed the value of work completed recognised in our statutory reported results, this drives the variance between charging statement costs and statutory reported costs.

Recognition differences between adjusted and reported results

Cost type	Category in the statement of profit or loss	Category in the charging statement[3]	Difference in recognition
Key suppliers (including associated finance costs)	Cost of sales and finance costs (costs incurred with key suppliers for SMETS2, SMETS1 and switching programmes)	External costs and Communications hub fixed revenue	Adjusted costs are amounts invoiced/due to be invoiced in the year by suppliers in relation to work completed in the year or in previous years, in accordance with the invoicing profile in their contracts. Reported costs represent the value of work completed by suppliers in the year which may have been invoiced/due to be invoiced in the year or or will be invoiced in future years.
Other suppliers	Cost of sales (costs incurred with other suppliers providing direct services in relation to the SMETS2 and SMETS1 programmes, e.g. Smart Metering Key Infrastructure and Parse and Correlate services, andcosts incurred by SECAS and Alt HAN Co.)	Internal costs and pass-through costs	None
Administrative costs	Administrative expenses, depreciation and other finance costs not related to key suppliers	Internal costs, baseline margin, external contract gain share, disallowed costs	Adjusted costs reflect the margin and external contract gain share that are recovered from customers in the year as determined by Ofgem in the price control decision. Reported results show these costs on an accruals basis and may be chargeable to customers in a future year. Adjusted costs include asset related expenditure as incurred. Reported results capitalise these costs in line with IAS 16 and IFRS 16, and depreciation and interest are recognised in the statement of profit or loss.

Comparison to the Charging Statement for year ending March 2021[4]



3 As defined in the Licence
4 charging-statement-ry2021-issue-20.pdf (smartdcc.co.uk)

When compared to the Charging Statement set for the year ending March 2021 costs incurred were £17.9m million lower than estimated. The majority of the underspend was driven by the SMETS1 programme, with cost efficiencies of £10.2m and programme delays of £7.4m. Other programme overspends were largely offset by lower than budgeted resourcing costs.

Price control assessment for year ended March 2020

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

The assessment is carried out after the regulatory year has ended and the final determination is published in the subsequent February[5], so any financial impact of the decision is first reflected in the results of the following regulatory year. For the year ended March 2020 these were the conclusions published in February 2021:

- All external costs were assessed to be economic and efficient
- £3.4m of internal costs incurred were assessed to be unacceptable under the Licence. This will be returned to customers through charges in 2021.
- A £2.1m reduction in baseline margin was determined due to performance under the Operational Performance Regime and Project Performance Adjustment Scheme.
- A £8.7m adjustment to baseline margin was awarded for work carried out to date and due to be carried out in 2021 in relation to increased scope in business activities. £3.5m of this adjustment is included in the reported results for the period ended March 2021.
- A £3.8m adjustment to the external contract gain share to reflect the Company's share of cost savings achieved through refinancing activity. £2m of this adjustment is included in the reported results for the period ended March 2021, the remainder will be recognised on an annual basis in future years in line with Ofgem's determination.
- The net financial impact of price control assessment is what the Company and the shareholder consider to be the margin earned from the smart metering contract. This margin impact in relation to 2021 is presented in administrative expenses in the reported results of the Company. £11.2m (2020: £12.8m) has been included in administrative expenses this year.

5 DCC Price Control Decision Regulatory Year 2019/20 | Ofgem
6 These arrangements meet the requirements set out in Licence Condition 26: Financial stability and financial security and have been approved by Ofgem.

Liquidity and financial stability

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

A key priority is to ensure that charges to customers are set at an appropriate level to ensure adequate cash levels are maintained throughout the year and to minimise the risk of having to re-open a charging statement. The closing trading cash balance was £72.0m (2020: £40.0m). The increased cash balance from prior year is partly due to timing of spend, with additional cash outflow in April 2021. The remaining increase in cash results from underspend and is being returned to customers (£12.0m was returned to customers in April 2021 and a further £10.9m will be returned over the course of 2021/22).

The Company does not have external financing but does have access to financial support, if required, through arrangements[6] in place with the parent company up to a total value of £15.0m (2020: £15.0m).

The Company also has access to credit support provided by customers in accordance with the SEC, which can be drawn upon if a customer fails to pay their invoice. Credit support is provided in the form of a bank guarantee, letter of credit or a cash deposit. The value required is calculated per section J3 of the SEC. As at 31 March 2021 the Company held £19.1m (£15.0m) in cash deposits. Cash deposits, together with bank letters of credit and affiliate guarantees, give cover for approximately 89% of one month's total charges to customers.

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2021, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 March 2023, as well as considering several plausible downside scenarios as a result of COVID-19. The Board's assessment is set out in more detail in note 2 to the financial statements.

Financial KPIs

1. Spend against charging statement – £600.1m vs £618.0m
2. In year cost savings - £15.4m
3. Percentage of suppliers paid within 30 days as at March 2021 – 99%
4. Price control result for year ended March 2020 - £8.7m margin adjustment, £3.8m gainshare adjustment, £3.4m costs disallowed.

Non-financial reporting

Directors' statement in performance of their duties under section 172(1) Companies Act 2006

Section 172 of the Act requires Directors to act in good faith and in a way that is the most likely to promote the long-term success of the Company. In discharging this duty, Directors must take into consideration the interests of the various stakeholders of the Company, and the impact the Company has on the workforce, community, and environment.

The Directors consider that they, both individually and collectively, have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) S172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2021 including:

a) **The long term:**

The Board has regular workshops to discuss and review the approach to growth, risk appetite and long-term strategic direction. These discussions take account of the views and feedback of our key stakeholders including our customers and as a result, post 2025, our core business will remain the operation of the smart meter communications network. We will be focussed on increasing the efficiency, quality and stability of our platform and working with our customers to enhance the service we offer in response to their needs. In addition, this nationwide infrastructure, already paid for by end-consumers, can play a valuable role in helping the UK reach its target of Net Zero by 2050.

b) **Workforce and employee engagement:**

Our workforce comprises of employees and contractors and they are fundamental to delivering our core business and strategic ambition. The success of our business depends on attracting, retaining, and motivating employees. The Board is committed to having an effective engagement strategy with the workforce. During the year, engagement has been primarily through representation of the Chief People Officer for employee related discussions.

We were able to successfully implement our BCDR plan in response to COVID-19 and the various UK lockdowns. All staff that were able to, were encouraged to work from home. A number of staff were required to remain on site at our testing facility, and government guidance was followed in all cases to protect the health and safety of our people. Our workforce was provided with regular updates on matters pertaining to safety and working arrangements. We increased the focussed on the wellbeing of our people to ensure they were coping working remotely and with the wider impacts of the pandemic.

Health, safety and wellbeing of our people is a priority. During the COVID-19 pandemic, where working from home was not possible, workspaces were adapted to allow social distancing and had increased cleaning regimes. Wellbeing was monitored by line managers as well as an online form and if people were struggling, they were referred to one of our trained mental health first aiders as well as provided access to the employee assistance program.

No employees were furloughed during the COVID-19 pandemic, as the BCDR plans allowed for continued operations in all areas.

To date the Board has not implemented one of the methods outlined in the Code; a Director appointed from the workforce; a formal workforce advisory panel; or a designated Non-Executive Director. The DCC has developed key processes to assess and monitor culture and workforce issues, including eNPS, robust performance management, and a workforce engagement panel. Employee engagement matters are represented to the Board through the Chief People Officer, who reports to the Board on a monthly basis. This is deemed to be effective and appropriate given the evidence from the People Survey shows that workforce engagement is very successful and has improved year on year since 2019.

For further details on the Board's approach to monitoring and assessing company culture please refer to page 65.

For further details on the Board's employee engagement please refer to page 66.

For further information on 'Our People' including employee engagement and satisfaction as well as employee networks and groups, please refer to page 42.

c) **Business relationships with:**

a. Suppliers:

i. Forms of engagement: Executive Directors and the Senior Management Team regularly meet with suppliers to foster relationships. The Supply Chain Team has been strengthened so that the Supplier Relationship Management Team is fully in place and engaging directly with suppliers on key issues.

There are monthly dashboards in place for the Top 13 suppliers, which are reported to the Exco and the Contract Management Team is fully resourced to manage increased supplier interaction. DCC also populate an annual supplier report and quadrant with traffic light ratings, which drive discussions with suppliers and ultimately performance.

For information on supplier prompt payment please refer to the financial performance section on page 51.

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

iii. COVID-19: During the pandemic our focus with suppliers has been to ensure that our prompt payment target has been met in order to support suppliers cashflow, which may have been suffering, especially during periods of national lockdown.

b. Customers:

i. Forms of engagement: Customer engagement is an ongoing key focus and progress in this area is explained in detail on page 38.

During the year, we delivered a step change in engagement with DNO, based on feedback and have improved transparency with customers, using the NEP as a pilot. Given the new OPR metric on customer engagement, this will drive the focus and performance even further in 2021/22.

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

iii. COVID-19: Whilst we are obliged to comply with the SEC (section J) with regards to billing, cash collection and credit cover, our focus to support customers during the COVID-19 pandemic, was to limit the amount of debt socialised in the year by regular engagement with customers, SECAS and the SEC panel.

c. BEIS/Ofgem/SEC Panel:

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

During the year, we have increased the size of the team that works with the SEC panel and sub-committee Chairs, to highlight key issues and create tailored and targeted engagement.

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

d. Shareholder:

i. Forms of engagement: Both the Chairman and Patrick Elliott are senior employees of the shareholder, and there is ongoing engagement via their roles on the Board. In addition, the Capita Shareholder Team, established last year, comprises senior representatives from both Capita plc and the Company. The group met quarterly throughout the year and discussed matters such as operational and financial performance, future regulatory framework, and the supply of services from Capita plc. The Chairman, Patrick Elliot and the Executive Directors attend these meetings.

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

For further details on Board engagement with the shareholder, please refer to page 65.

d) Impact on the community and environment:

The Board is committed to the Company's 'Smart Green' agenda and has set the target for the Company to reduce its absolute, measurable, carbon load on the environment. Please refer to page 50 for further information on Smart Green initiatives in the year and the Company's carbon usage.

e) High standards of business conduct:

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

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

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

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

d. Commitment to ensure suppliers are paid promptly, with a new target of at least 97% of all suppliers to be paid within 30 days, which was met consistently throughout the year.

f) The need to act fairly as between members of the company:

Although the company has only one member, Directors assess all relevant factors in decision making, with a view to enable delivery of our strategy through the long-term whilst taking into consideration the impact on the shareholder as well as other stakeholders.

Viability statement

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

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

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

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

The Business and Development Plan considers the progress of programme delivery and roll-out of the service. The annual Charging Statement and budget process requires the Company to review its ongoing activities and future plans, supported by a monthly review of internal activities and ongoing review of key supplier activities. These are the basis for the charges to be recovered from customers and underpin the base-case cost projections prepared for both the going concern and viability assessments. This year the Board has also considered plausible downside case scenarios for potential impacts of the COVID-19 pandemic (Details within note 2 to the financial statements).

In addition to cost identification, the Company can adjust the charges that mitigate the risk of under-recovery of charges for prior years (correction factor) and ensuring that the Company remains cash positive (prudent estimate). The Licence allows the recovery of all costs that are efficiently and economically incurred. Furthermore, the Company has several mechanisms which minimise the risk of shortfall of receipt of payments from customers (explained in detail within note 2 to the financial statements).

The Directors confirm that they have conducted a robust assessment of the emerging and principal risks facing the Company as set out in the principle risks and uncertainties section on page 44. Based on this assessment, and providing that the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and that the Smart Metering Programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2025.

7. Governance

7. Governance

Chairman’s introduction to governance

Strong governance and risk management are key to achieving our vision of making Britain more connected, so we can all lead smarter, greener lives.

The Board’s role is to provide clear leadership in setting strategy and risk appetite and to oversee Management’s implementation of that strategy in an effective way within the control framework.

Board leadership

The Directors of the Company currently in office are listed on pages 61-62.

David Brown (CFO) stepped down on 1 July 2020 and Jason Clark (CFO) was appointed on 1 February 2021.

Mark Mathieson (Independent Non-Executive Director) stepped down from the Board on 1 April 2021 and Ian McCaig (Independent Non-Executive Director) was appointed on 1 April 2021.

I would like to thank David Brown and Mark Mathieson for their commitment and contribution during their Directorships.

Meeting schedule

The Board meets formally at least seven times a year and due to the COVID-19 pandemic this has mostly been via video conference during the past year. The Board has a schedule of business planned around the Company’s financial calendar, and ensures regular discussions take place on matters such as strategy, oversight, financial performance, risks, governance, and stakeholder engagement.

During the year the Board established a Nomination Committee to reflect the evolving and growing needs of the Board. Further details on this can be found in the Nomination Committee Report on page 69.

Board effectiveness

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

- Leadership and purpose - our purpose is set out on page 7.
- Board composition, meeting attendance, compliance with the Code and overall strategy are set out on page 64 onwards.
- Division of responsibilities - governance framework on page 67.
- Board talent management, succession and appointments- Nomination Committee Report on page 69.
- Audit, risk, and internal control - Audit and Risk Committee report on page 70.
- Remuneration- Remuneration Committee report on page 74.

Corporate governance and committee reports

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

Board leadership

Board members

Richard McCarthy
(Chairman)
Appointed: October 2013

Key skills and experience: Richard joined Capita’s Local Government, Health and Property Division as Executive Director for Central Government in February 2012. He subsequently became Capita Group’s Senior Director of Government Affairs and in addition to DCC he took on the Chairmanship of the Axelos and Fera Science joint ventures with the UK Government. In 2021, he also became the independent Chairman of Andium Homes, the Jersey Government owned social housing provider. Prior to joining Capita, Richard was the Director General, Neighbourhoods, at the Department for Communities and Local Government and their lead official for housing, planning, regeneration, local economies, climate change, building standards and the European Regional Development Fund.

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

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

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Angus Flett
(Chief Executive Officer)
Appointed: February 2017

Key skills and experience: Angus joined DCC as CEO in March 2017 and has an extensive telecoms background. Most recently Angus was a Senior Vice President for Global Enterprise Products at Vodafone and, until 2013, the Managing Director of Customer Services and CRM at BT. Previously he has held senior positions within Cable & Wireless and Ciena.

Jason Clark
(Chief Financial Officer)
Appointed: February 2021

Key skills and experience: Jason Clark became our Chief Financial Officer on 1 February 2021. Before joining DCC, Jason spent two years as the Chief Financial Officer at Bristol Airport, where he had Board level responsibility for finance, risk management, procurement and IT. Prior to this, Jason spent the majority of his career in the energy industry with RWE, working across upstream and downstream businesses in the UK and Europe, with his last position being the Finance Director for RWE npower.

Phil Male
(Senior Independent Director)
Appointed: September 2013

Key skills and experience: Phil has 20 years’ experience as an Executive Director within FTSE companies. He has an extensive background in telecoms, media and Internet. He has operated in small start-ups through to large global companies and high growth environments.

Phil is currently Operating Partner at Lyceum, HIG and Others, advising on TMT sector transactions. Previously, he has held a number of senior posts including Executive Director at Demon Internet, Chief Operating Officer at THUS Group plc and Executive at Cable & Wireless Worldwide. Early in his career, he was one of two founding Directors of Computer Newspaper Services (CNS) which pioneered electric content in the media industry.

DCC Public

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

Key skills and experience: Barbara is an experienced Non-Executive Director who has worked extensively with SMEs, PLCs in regulated sectors, international private companies and venture capital specialists.

Barbara is currently a Non-Executive Director and Chair of Audit & Risk at Sovereign Housing Association, Non- Executive Director for BSC2 VCT and Chair at Altido. Her expertise includes innovation, growth and sustainability, strategic planning, start-up acceleration, business transformation, deal preparation and corporate governance.

Ian McCaig
(Independent Non-Executive Director)
Appointed: April 2021

Key skills and experience: Ian is Chairman of Festicket Ltd, Board Member and Chair of the Operating Committee at M-Kopa Ltd, Board Member and Chair of the Audit and Risk Committee at Seedrs Ltd, Trustee Board Member and Chair of the Audit and Risk Committee at English Heritage and Board Member at Wesleyan Assurance.

In his executive career, he was most recently CEO of First Utility, the largest independent energy provider in the UK and a pioneer in smart-metering technology and energy analytics, which was acquired by Shell at the end of 2017. Prior to that, he was CEO of lastminute.com. His early career was in the IT industry at ICL before moving into telecommunications and spending a number of years at Nokia.

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

Key skills and experience: Patrick is the Chief Strategy & Product Officer at Capita, after having been at the company for over six years. Patrick is a customer-focused leader with a strong track record of growing and developing businesses at MD / CEO level, working across the business services / outsourcing, mobile telecoms, media, internet and property sectors. He is successful in both large corporate and smaller entrepreneurial environments, growing profits via new business wins and efficiency improvements across complex portfolios, establishing high-growth start-ups and leading major change programmes and business turnarounds. Patrick's M&A experience includes having taken two SME's to exit (one to trade, one to PE) and led the acquisition of a third into a corporate. He is bi-lingual in English and French, as well as a Chartered Director and Chartered Engineer.

Mark Mathieson
(Independent Non-Executive Director)

Mark Mathieson was appointed as an independent Non-Executive Director on 22 March 2018 and stepped down from the Board on 1 April 2021.

UK Corporate Governance Code

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

Code Principle or Provision	Reason for non-compliance
Provision 9:	
The Chair should be independent on appointment when assessed against the circumstances set out in Provision 10..	The Chair was appointed on incorporation of the Company and is a senior employee of the Company's shareholder, Capita plc. The majority of NEDs are independent. The Chair has not served on the Board for more than nine years. Board appointments are conducted in accordance both with Capita's policy and DCC Licence conditions.
Provision 18:	
All Directors should be subject to annual re-election. The Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.	Due to the ring-fenced nature of the Company's operations it would not be appropriate to have annual re-elections of Directors at this time.
Provision 24:	
The Board should establish an ARC of independent NEDs, with a minimum membership of three, or in the case of smaller companies, two. The Chair of the Board should not be a member. The Board should satisfy itself that at least one member has recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the company operates.	The ARC is comprised of three Independent Directors and one Non-independent Member. The Non-Independent Member provides recent and relevant financial experience to the Committee.
Provision 32:	
The Board should establish a remuneration committee of independent Non-Executive Directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the Board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	The Chair of the Board is also the Chair of the Remuneration Committee. The Board consider this arrangement to be appropriate for the size and nature of the business, and regularly reviews this to ensure the arrangement remains appropriate.
Provision 37:	
Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.	The Company's remuneration scheme and policy does not include provisions that enable the Company to recover and/or withhold sums from Directors. There are no share awards. The Remuneration Committee does, however, have discretion to override formulaic outcomes and set final awards each year.

Board composition

At 31 March 2021, the Board comprised seven Directors, made up of the chair (also a Non-Executive Director), CEO, CFO, a Non-Executive Director and three Independent Non-Executive Directors as shown below:

Executive Directors	Sufficiently independent [7] non-executive Directors	Non-executive Directors
Angus Flett (CEO)	Phillip Male (Senior Independent Director)	Richard McCarthy CBE (Chairman)
Jason Clark (CFO)[8]	Barbara Anderson	Patrick Elliot
	Mark Mathieson[9]	

Board meeting and attendance

The following table shows the attendance of Directors at scheduled Board and committee meetings during the year:

Director	Position	Board	Nomination Committee	Audit &Risk Committee	Remuneration Committee	SMETS1 Committee[10]
Richard McCarthy CBE	Chair	9 (9)	3 (3)	n/a	5 (5)	n/a
Angus Flett	CEO	9 (9)	n/a	n/a	n/a	11 (12)
Barbara Anderson	Independent NED	9 (9)	3 (3)	3 (3)	5 (5)	n/a
Jason Clark	CFO	2 (2)	n/a	n/a	n/a	2 (2)
Patrick Elliot	NED	9 (9)	3 (3)	n/a	5 (5)	n/a
Phillip Male	Senior Independent Director	9 (9)	3 (3)	3 (3)	5 (5)	11 (12)
David Brown [11]	CFO	2 (2)	n/a	n/a	n/a	3 (3)
Mark Mathieson	Independent NED	9 (9)	3 (3)	3 (3)	n/a	12 (12)

During the year, the following additional meetings took place:

- The Chair held one-to-one review sessions with each Executive Director and each NED.
- The NEDs met without the Executive Directors.
- The NEDs met without the Chair, led by the Senior Independent Director.

Board leadership

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

During the year, as per good practice, the Chairman met with the Non-Executive Directors without the CEO present and the Senior Independent Non-Executive Director held a meeting with the Non-Executive Directors without the Chairman.

Governance and strategy

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

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

The following matters (amongst others) are factored into all Board discussions and decisions, and are detailed in the section 172 statement on page 55:

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

Culture

The Board assesses and monitors culture through ongoing policy review to ensure policies are aligned with the Company's purpose, values and strategy, are well understood by the workforce and are driving the right behaviours. Review of the annual People Survey results (page 43) also provides valuable insights into how well the culture is embedded across the organisation and, most importantly, key areas of focus for development.

The global COVID-19 pandemic which arose last year meant our employee engagement surveys focussed largely on the safety and wellbeing of our people. In 2021, we introduced a continuous listening tool (Peakon) to help us be more responsive and consistent in our feedback loop with our people. We are pleased to report that our March 2021 results showed a 90% rating by employees on our handling of COVID-19 and a 91% rating on the safety measures and precautions that we put in place to protect our people. Importantly, our annual eNPS score was +17, a six-point increase on the previous year.

Board independence

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

Management of conflicts of interest

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

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

Shareholder engagement

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

The Quarterly Shareholder Review was established in 2020 as a means of providing quarterly updates to the shareholder on areas including, but not limited to: regulatory matters, operational and financial performance, programme delivery and risk, progress against strategic objectives.

Fixed representatives from the shareholder include Richard McCarthy, Patrick Elliot, the Capita Divisional Finance Director, a nominated Capita representative and

7 As defined in Licence Condition 9
8 Jason Clark was appointed on 1 February 2021
9 Mark Mathieson resigned 1 April 2021 and Ian McCaig was appointed on 1 April 2021
10 SMETS1 Committee was disbanded in March 2021 and its remit of work was absorbed back into the Board
11 David Brown resigned on 30 June 2020

Government Venturing Director. The shareholder is also represented by regular (but not fixed) attendees such as Government Services CEO, Divisional Growth Director and Divisional Legal Director.

The Company is represented by the CEO, the CFO, and the Chief Regulatory Officer. Other members of Senior Management attend the meetings as required.

Employee engagement

Employee related matters and concerns are discussed with the Board by the Executive Directors and the Chief People Officer, who attends meetings when relevant items are on the agenda. This will include remuneration policy, incentive schemes, health and safety, matters raised through the People Forum, and the results of the annual People Survey. Our people, the People Forum and the People Survey are explained on page 43.

Employees can raise concerns, anonymously if they wish to do so, using the Company's 'Speak Up' policy. There are several channels through which employees can share their concerns, including an independent Speak Up facility that is available 24/7.

Directors' indemnities

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

Division of responsibilities

The Board

Ensure long-term sustainable success of the Company and create long-term value for the mutual benefit of all stakeholders and employees.

Matters reserved for the Board

Include but are not limited to::

Strategy and management, including responsibility for the overall leadership of the Company, setting the Company's values and standards and overview of the Company's operational management.

Financial reporting, including the approval of the Annual Report and certificates for submission to Ofgem. Internal controls, ensuring that the Company manages risk effectively and is compliant with the Licence Contracts, including approval of significant supplier contracts and strategic projects

Ensuring satisfactory communication with stakeholders

Board membership and other appointments, including changes to the structure, size and composition of the Board, and succession planning for the Board

Audit and Risk Committee

- External audit
- Financial reporting
- Risk management and internal controls
- Internal auditit

Remuneration Committee

- Remuneration policy and principles
- Incentive design and target setting
- Executive and senior remuneration

SMETS 1 Committee

- Board succession planning
- Appointments and re-appointments to the Board

Role of the Directors

Chair	Responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. This includes setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chair is also responsible for ensuring there is sufficient evaluation of Board performance and that appropriate actions are taken to ensure compliance with best practice.
Senior Independent Director	Acts as a sounding board for the Chair on Board-related matters, chairs meetings in the absence of the Chair, acts as an intermediary for other Directors when necessary, leads the evaluation of the Chair's performance, leads the search for a new Chair, when necessary, and is available to the shareholder to discuss matters which cannot be resolved otherwise.
Non-Executive Directors	Constructively challenge and help develop proposals on strategy. They should scrutinise the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration for Executive Directors.
Executive Directors	Responsible for the day-to-day running of all aspects of the business. This responsibility is different from the Chair's role in running the Board. The role of CEO is separate from that of Chair to ensure that no one individual has unfettered powers of decision making.

For further details on Board roles and responsibilities please refer to the Company Leadership | Smart DCC

Diversity and inclusion

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

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

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

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

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

The Board has committed to:

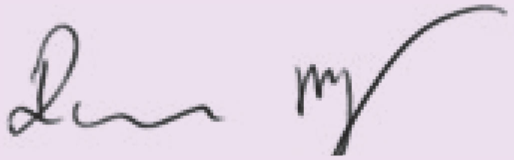
- Monitor progress against the plan for diversity and inclusion and ensuring the appropriate sponsorship from Senior Management is in place
- Sponsor initiatives which support improved diversity at senior levels of the organisation
- Ensure new appointments are made on merit, taking account of the specific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

Evaluation of Board Performance

In accordance with the Code, an internal effectiveness evaluation of the Board and its Committees was undertaken during the year, facilitated by the Company Secretary. The review was administered via surveys with the opportunity to provide anonymous feedback, collated via the Company Secretary. The results of the review were predominantly highly rated, particularly in relation to governance, the performance of the Audit and Risk Committee, and the relationship with stakeholders. We were pleased with the results of the evaluation and are confident that the Board and its Committees are operating effectively, with the right balance of skills and experience.

Following Board discussion on the evaluation results, a number of areas of focus for 2021/22 were set as objectives, including:

- Continued focus on the risk agenda
- An ongoing focus on succession planning, both at Board and Executive level
- Industry relationships and stakeholder interaction
- Innovation and Growth, and the challenges of development and delivery



Richard McCarthy CBE
Chair
30 June 2021

Nomination Committee report

Members:	
• Richard McCarthy	• Barbara Anderson
• Ian McCaig (Appointed 1 April 2021)	• Patrick Elliott
• Phil Male	• Mark Mathieson (Resigned 1 April 2021)

Purpose

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, ensuring it has the right skills, knowledge, diversity and experience needed. It also leads the process for appointments to the Board and Senior Management (Executive Committee) positions, ensures plans are in place for orderly, well planned succession, and oversees the development of a diverse succession pipeline of candidates.

Attendance

All Non-Executive Directors are members of the Nomination Committee to ensure that the Board as a whole is involved in discussions relating to succession planning. The CEO, and other members of Management, may be invited to attend meetings in order to provide a fuller picture and deeper level of insight into key issues and developments. Attendance by Board members is disclosed on page 64.

Committee activity

Following the establishment of the Nomination Committee during the year, a schedule of agenda items was established to ensure that all matters required to be considered by the Committee were given due consideration and reviewed at appropriate intervals. We established a skills and diversity matrix to allow us to identify any potential gaps in skills experience that might need early consideration, and also considered how this might align with the future strategic direction of the Company.

The Nomination Committee has also ensured that Senior Management succession planning has been kept under review and was also able to recommend the appointment of Jason Clark as CFO following the resignation of David Brown in June 2020.

Appointment process

In order to keep the right balance of skills and experience, the Nomination Committee keeps Board composition under review, and recommends to the Board if any additional skills should be recruited. Following Mark Mathieson's resignation from the Board, the Nomination Committee reviewed the composition of the Board, considered those skills which the Board would benefit from greater exposure, and recommended to the Board that a new Director be sought. The Board undertook to recruit an additional Non-Executive Director. Following discussion by the Board, it was agreed that Korn Ferry be engaged in December 2020 to assist with the recruitment following Mark Mathieson's resignation from the Board. After a thorough shortlisting and longlisting process, we were pleased to welcome Ian McCaig to the Board on 1 April 2021. Ian brings a wealth of experience and is already adding value to our discussions. Korn Ferry have previously been engaged to executive and non-executive recruitment as well as for ad hoc consultancy regarding remuneration and reward strategies.

Talent management and succession

The Nomination Committee believes that effective succession planning can mitigate the risks associated with the departure of well qualified and experienced Directors. Our aim is to ensure that the Board, and Senior Management, is always well resourced with an appropriate mix of skills and experience.

We have a formal, rigorous and transparent procedure in place for the appointment of new Directors, which includes a review of other significant time commitments Directors may have.

For Senior Management succession, the Committee works to identify and develop a suitable pipeline of succession candidates, and ensures that it meets with potential candidates well ahead of any selection decision being necessary the Committee also engages the Board early in the process to ensure all Directors have an opportunity to meet and assess prospective candidates.

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

Induction, training and development

Following appointment, Directors receive a comprehensive induction and can discuss with the Chair any training and development needs. The Chair regularly reviews Directors' development and training needs through the annual Board evaluation process. Non-Executive Directors are encouraged to meet regularly with Senior Management to share knowledge, advice and broaden their understanding of the business, strategy and risks that DCC faces.

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

Diversity and inclusion

As a Board, we are supportive of the ambitions expressed in recent reviews on diversity, including the Hampton-Alexander Review and the Parker Review. Female representation on the Board is currently 14.3%, and we will continue to examine ways in which we can increase female representation on the Board. Although we are not a listed company, we are mindful of the aims of the Parker Review, for companies to have at least one Director from an ethnic minority background by 2024. The Board considers diversity in all its forms to be important for the future development of the business, and diversity of skills, experience, gender, social and ethnic backgrounds, cognitive and personal strengths amongst other factors are taken into consideration when seeking to appoint a new Director to the Board. We are also aware that diversity of outlook and approach, whilst hard to measure, may be equally as important.

Please refer to page 68 for more information on our commitment to diversity and inclusion in the wider workforce.

Audit and Risk Committee report

Members:	
• Barbara Anderson	• Liz Brownell (Appointed 2 December 2020)
• Ian McCaig (Appointed 1 April 2021)	• Mark Mathieson (Resigned 1 April 2021)
• Phil Male	

Chair introduction

Further to the significant evolution of the DCC's Audit and Risk Committee last year, over the last twelve months the Committee has focussed on gaining assurance that the revised risk framework, systems of internal control and related reporting across the business are effective and increasingly well bedded-in to the organisation.

The Committee has also continued to oversee the key financial processes and policy updates as well as monitoring the principle risks within the business against the risk appetite set by the Board and reporting on these to the Board as appropriate. For optimal clarity, the risk register terminology was updated to reflect best practice.

The forward-planner continues to be used ensure that the Committee continues to deliver against its objectives as set out in the Terms of Reference in a timely manner.

Committee membership and attendance

All members of the Committee except Liz Brownell are independent. Liz is from the Capita Group and was appointed to the Committee on 2 December 2020, after Simon Mayall stepped down during the year. Liz is a UK Chartered Accountant who qualified with Deloitte in their audit practice before moving to Capita in 2012, and also sits as an independent member of the University of Derby Audit and Risk Committee. Liz is considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code 2018. Board attendance is set out on page 64, Liz attended 1 out of 3 meetings in the year.

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

Committee performance was assessed as part of the Board evaluation (see page 68 for more information). The Board is satisfied that the combined knowledge and experience of the Committee's members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has competence relevant to the sector in which the Company operates. The ARC reviewed its effectiveness as part of a broader review of all Board Committee's effectiveness facilitated by the Company Secretary. The Board was satisfied the ARC is performing effectively and its composition remains appropriate.

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

How the Committee operates

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

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

Role and responsibilities

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

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

How the Committee discharged its roles and responsibilities in 2021

The Committee met three times during the year. Director attendance at each meeting is shown on page 64. Meetings are planned around the Company's financial calendar.

Financial reporting

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

DCC Public

Costs incurred and revenue recognition		
Matter considered	**Action**	**Outcome**
The amount of costs recognised in the period and whether they are permitted to be recharged to service users directly determines the amount of revenue recognised in the income statement. of profit or loss. Therefore, there is a risk that if costs are not accurately recorded, revenue would be misstated. .	Members of the Committee receive regular updates from the CFO on costs incurred throughout the year as part of management information presented to the Board. The Committee reviews a reconciliation of costs in the financial statements to this management information.	The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue and cost recognition.

Going concern		
Matter considered	**Action**	**Outcome**
Consideration of the going concern assumption is the responsibility of the Board, and the Committee conducted an assessment as part of its support role.	The going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee considered the business plan projections that cover the 4 years to 31 March 2025, in addition to the cashflow projections until March 2023. The Committee considered the going concern assumption disclosures and the requirements of the Code as it applies to the Company's viability statement, including the four-year period of assessment which aligns with the Company's planning horizon and the processes supporting the viability statement. After discussion the Committee determined that the four-year measurement period continued to be appropriate and that the viability statement (as set out on page 57) should be recommended to the Board for approval.	The Committee is satisfied that note 2 to the financial statements includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board, including the assessment of plausible downside case scenarios with respect to the COVID-19 pandemic in the UK.

Fair, balanced and understandable

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

Other issues considered in relation to the financial statements

Materiality

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

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

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

Disclosure of information to the auditor

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

Statutory auditor

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

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

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

Auditor independence

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

- The CFO monitors the independence of the auditor as part of the assessment of the auditor's effectiveness and reports to the Committee.
- The CFO 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 considers implications for the objectivity and independence of the relationship with the auditor.

Non-audit services and fees

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

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

External auditor performance

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

External auditor tender and re-appointment

The Company's audit services have not been subject to a tender process since its inception in 2013, therefore the current tenure of KPMG is eight years. The performance of the auditor was reviewed at the Committee meeting on 14 June 2021, when the Committee considered the performance of the auditor to be satisfactory and recommended to the Board that the auditor be re-appointed.

Internal control & risk management

The Committee is responsible for reviewing the effectiveness of the Company's system of internal control and providing their view to the Board.

The Chief Risk and Business Improvement Officer has presented updates on Licence and Code compliance, internal audit activity, enterprise risk as well as the associated actions at each Committee meeting.

The 2021 internal audit plan, approved by the Committee in November 2020, includes both risk-based audits and a rolling schedule of policy audits that ensures all Company policies are audited over a three-year period. The risk-based audit schedule for 2021 includes a focus on fraud controls, security and data controls and information management.

The effectiveness of the internal control framework and the risk management system was reviewed in March 2021, noting improvements in the consistency of risk management across the business, and further planned improvements in maturity for 2022.

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

Regular reporting to the Committee during the year included:

- Outcomes of planned controls and compliance monitoring activity
- Outcomes of planned internal audit activity, including findings, risk assessment and recommendations
- Enterprise risk assessment, including review and approval of changes and proposed mitigations
- Completion of agreed internal audit, risk, and compliance related actions, and measures taken to manage overdue or outstanding actions

Barbara Anderson
Chair
30 June 2021

Directors' remuneration report

Members:	
• Richard McCarthy	• Barbara Anderson
• Phil Male	• Patrick Elliott
• Mark Mathieson (Resigned 1 April 2021)	• Ian McCaig (Appointed 1 April 2021)

Annual Statement

I am pleased to present the Remuneration Committee report for the year ended 31 March 2021. The objectives of the Remuneration Committee have remained unchanged in the year and its focus has remained on ensuring that the remuneration policy of the Company continues to attract high quality employees and retain and motivate the existing workforce.

Key activities of the Remuneration Committee during the year included:

- The review of the remuneration policy for Executive Directors and members of the Executive Committee for 2022
- Approval of annual payments for 2021 under the annual bonus scheme and pay award effective from 1 April 2021

How the Remuneration Committee operates

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

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

At each meeting the members may receive reports and presentations covering wider workforce arrangements which include the annual pay and bonus review, future incentive schemes, and ensuring pay equality.

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

Remuneration Committee membership and attendance

Three members of the Remuneration Committee are Independent Non-Executive Directors and two are Non-Executive Directors. Although the composition of the Remuneration Committee is not in compliance with the Code because not all members are independent, it is considered to be suitable given the size of the Company and because the majority of the Remuneration Committee is comprised of Independent Non-Executive Directors.

The number of formal meetings held and attendance by each Board member is shown on page 64. The Company Secretary acts as a secretary to the Remuneration Committee and is available to assist the members of the Remuneration Committee as required, ensuring that timely and accurate information is distributed accordingly.

Remuneration Committee discretion

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

Remuneration policy

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

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

- Value for money is achieved for customers in accordance with the Company's Licence commitments
- Total remuneration packages are simple and fair so that they are valued by employees
- Total remuneration strongly reflects performance

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

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

Consideration of shareholder views

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

Taking our people into account

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

Summary Executive Director remuneration policy table

The following table sets out the key aspects of the policy:

Base salary

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive and appropriately benchmarked.	Normally reviewed annually in March with any changes usually effective in April. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: • Comparable salaries in the market • Economic climate • Company performance • The role and responsibility of the individual Director • Employee remuneration across the broader workforce	There is no prescribed maximum monetary annual increase to base salaries, but an increase is normally in line with inflation. A higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstance. Any annual increase in salaries is at the discretion of the Committee.	No pay award was granted from April 2020 due to wider market conditions caused by COVID-19. Pay award from April 2021 is inflationary and is not performance related.

Benefits

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Consistent with benefits available to all employees.	Benefits include car allowance, private medical insurance and life insurance, and are provided by the parent company. The Committee has discretion to add benefits not currently provided, such as relocation expenses.	Benefit provision varies between different executive Directors. No maximum level is set by the Committee.	Not performance related.

Pension

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Consistent with benefits available to all employees.	Pension contributions are paid into the defined contribution scheme offered by the parent company.	5% of salary in line with the wider workforce.	Not performance related.

Annual performance bonus scheme

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Incentivises delivery of the business plan on an annual basis, and rewards performance against corporate and individual objectives set at the beginning of each year.	At the end of the year the Committee approves the Company's performance against the corporate objectives, which accounts for 60% of the pay-out. The remaining 40% is dependent on individual performance against objectives set at the beginning of the year. The Committee approves individual performance for the CEO and CFO. The Committee has full discretion to adjust. outcomes under the annual bonus scheme.	The maximum opportunity is 62.5% of base salary.	The Committee will determine the appropriate corporate objectives at the start of the financial year, with a balance of objectives based on financial performance, operational performance and strategic focus. Performance against each corporate objective is measured at three levels; threshold (75%), target (100%) and stretch (125%). The Committee retains the discretion to adopt any corporate objective that is relevant to the Company.

Non-Executive Director (NED) fees

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Market competitive fees are set to attract and retain NEDs with required skills, experience, and knowledge so that the Board can effectively carry out its responsibility.	For the year ended March 2021, NED fees were on a day-rate basis, with each NED earning the same day rate until 29 May 2020. From 29 May 2020 the structure of NED fees changed to comprise an annual basic fee with additional fees for further Board responsibilities such as: • Senior Independent Director • Committee Chair for any Committee of the Board. No NED participates in the Company's incentive arrangements or pension plan or receives any other benefits.	Between April 2020 and May 2020, the day rate was set at £1,966 per day. From June 2020 the annual basic fee was £45,000, with additional fees of £5,000 for additional responsibility as a Senior Independent Director or Committee Chair.	Not performance related.

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Annual bonus scheme 2021

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

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

The corporate objectives are set at the beginning of the financial year by the Board. Performance against them is assessed by the Committee and achievement as at end of March 2021 was agreed at 82%, detailed in the table below:

Objective area	Corporate objective	Weighting and Target performance	Final performance
Customer and operations	Deliver our business to provide reliable and secure live service, make the DCC easy to use and improve customers' experience.	20%	25%
Delivering the 2020/21 roadmap	Deliver new functionality and services in line with committed delivery plans and security requirements, make it easy to innovate on the DCC system, and develop solutions to enable innovation of current and future customer requirements.	45%	30%
Security	Deliver a threat-led security function to identify, protect, detect, respond and recover from security threats.	10%	10%
Financial and commercial	Deliver mandatory activities within the planned budget through good financial management and deliver a satisfactory price control outcome.	20%	10.75%
People	Ensure the DCC is a rewarding place to work, leading to increased levels of employee engagement and satisfaction.	5%	6.25%
		100%	**82%**

Executive Directors' service agreements

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

External advice received

During the year external organisational consultancy firm, Korn Ferry, were appointed to complete executive level recruitment and benchmarking as well as to provide advice on reward strategies.

Non-Executive Directors' terms of engagement

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

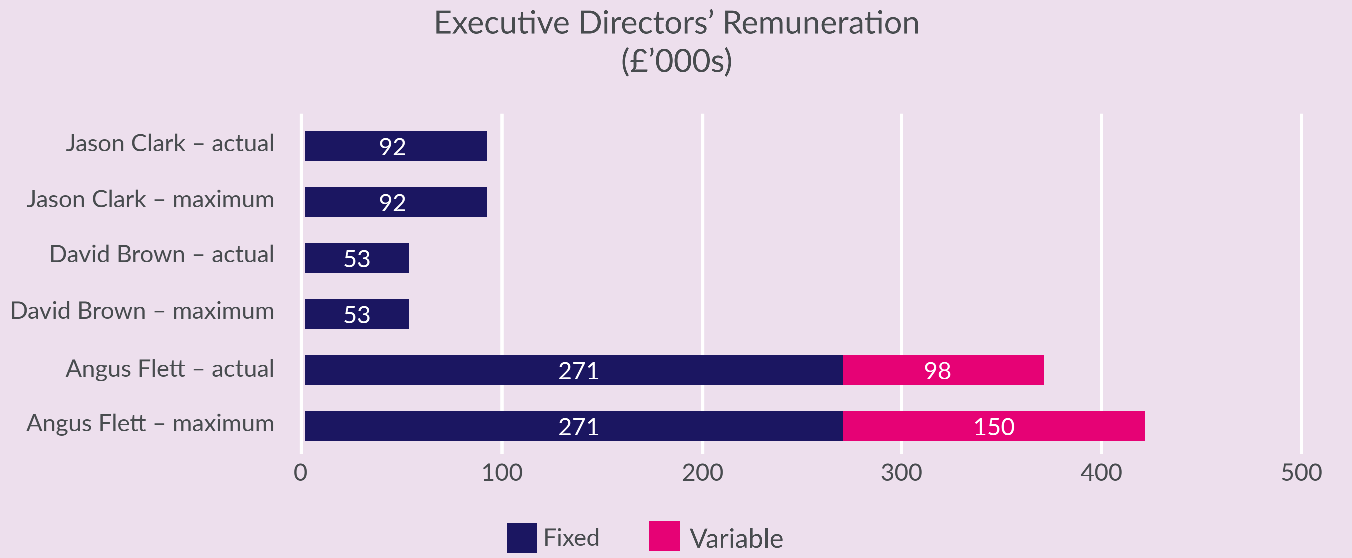
Directors' remuneration earned in 2021 – single-figure table (audited)

	Salary & Fees[12] (£)		Taxable benefits [13] (£)		Annual bonus (£)		Retention bonus (£)		Pension related benefits (£)		Total (£)	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Angus Flett	240,661	240,661	18,698	18,243	97,708	130,895	–	82,093	12,033	12,033	369,100	483,925
Barbara Anderson	55,627	62,912	–	–	–	–	–	–	–	–	55,627	62,912
David Brown	44,687	178,748	8,362	17,487	–	101,529	–	58,070	328	7,667	53,377	363,501
Jason Clark[14]	37,500	–	2,824	–	50,000	–	–	–	1,875	–	92,199	–
Mark Mathieson	50,712	35,388	–	–	–	–	–	–	–	–	50,712	35,388
Patrick Elliott[15]	28,653	10,043	–	–	–	–	–	–	–	–	28,653	10,043
Phil Male	56,020	42,684	–	–	–	–	–	–	–	–	56,020	42,684
Richard McCarthy[16]	67,465	81,028	–	–	–	–	–	–	–	–	67,465	81,028

William Rickett resigned on 1 August 2019 and received fees only, of 3,875, during the last financial year (2019/20). There were no payments to William Rickett in this financial year (2020/21).

Total remuneration for the highest paid Director is 4.0 times (2020: 4.8 times) the average total remuneration of all employees.

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



Richard McCarthy CBE
Chairman
30 June 2021

12 Inclusive of PAYE.

13 Taxable benefits are composed of car allowance and optional benefits selected by the employee. Examples of available benefits are private healthcare and critical illness cover.

14 The bonus payment made constituted a sign-on bonus and was not part of the annual performance bonus scheme.

16 This value represents the allocation of Patrick Elliot's cost in relation to time worked for the DCC.

17 These values represent the allocation of Richard McCarthy's cost in relation to time worked for the DCC.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the Regulatory Financial Statements in accordance with Condition 30 of the Company's Regulatory License and the accounting policies set out therein.

Company law requires the Directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- Select suitable accounting policies which are consistent with those used in the statutory financial statements of the Company for the year ended 31 March 2021, as modified by Condition 30 of the Company's Regulatory License and then apply them consistently make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

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

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

On behalf of the Board,

Richard McCarthy CBE
Chairman
30 June 2021

Independent auditor's report to the members of Smart DCC Limited and OFGEM ("the regulator")

DCC Public

1. Our opinion

We have audited the Regulatory Financial Statements of Smart DCC Limited ('the Company') for the year ended 31 March 2021 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Change s in Equity, Statement of Cash Flows and the related notes to the Regulatory Financial Statements. The financial reporting framework that has been applied in their preparation is Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

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

Basis for opinion:

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 13 April 2021 and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF 'Reporting to regulators on regulatory accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter - special purpose basis of preparation

We draw attention to note 2 to the Regulatory Financial Statements, which describes their basis of preparation. As explained in that note, the Regulatory Financial Statements have been prepared to assist the Company in complying with Condition 30 of the Company's Regulatory Licence. The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and have not been prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006. Financial information other than that prepared on this basis does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. As a result, the Regulatory Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Regulatory Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters (unchanged from year ended 31 March 2020), in arriving at our audit opinion above, together with our key audit procedures to address those matters in order that the Company and the Regulator may better understand the process by which we arrived at our audit opinion.

These matters were addressed, in the context of, and solely for the purpose of, our audit of the Regulatory Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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	The risk	Our response
Existence and Accuracy of costs £442.1million (2020: £447.6million) **Risk vs 2020:** ◀▶	The Company is required to operate in accordance with the terms of the Smart Meter Communication Licence (the Licence) which permits it to recharge certain costs to Service Users (customers). Service Users are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters. The amount of total costs recognised in the Regulatory Financial Statements for the period and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised in the financial statements. As such there is a risk that if costs are not accurately recorded within the financial statements, revenue would also be misstated. Certain costs incurred by the Company are recognised upon the achievement of a contractually agreed milestone. There is a risk that milestones have not been achieved during the current year and costs are not recognised accurately. Certain costs incurred by the Company are charged by Service Providers, who are companies contracted to provide services to Smart DCC, based on the achievement of milestones. The Company recognises these costs based on its estimate of the stage of completion of each milestone. There is a risk that recognition of costs (and therefore revenue) does not represent the actual stage of completion leading to an understatement or overstatement of costs.	**Our procedures included** **Control testing** • Testing relevant controls over expense recognition and recording in the Regulatory Financial Statements. **Tests of detail** Agreeing the amounts recorded for a sample of costs incurred and identified as chargeable to Service Users to source documentation (for example, invoices and/or contracts), in order to establish, whether the amounts were accurately recorded; Inspecting the invoices and where applicable, contracts supporting the sample of costs selected and challenging whether the costs recognised are consistent in nature with the provision of services under the Licence, based on Smart DCC's charging framework. For a sample of milestones that have been achieved in the year, evaluating if the costs have been appropriately recognised by: • Inspecting the terms and conditions in the relevant contracts with the Service providers; and • Agreeing the milestones recorded to milestone achieved certificates issued by Smart DCC. Where contractual milestones had not been achieved as at 31 March 2021, we assessed the reasonableness of the estimate of costs incurred for a sample of such milestones by: • Obtaining third party confirmations from the Service Providers of the percentage of completion of the milestone, and the contracts which shows the total cost of milestone. • Calculating the estimated cost incurred to date and comparing with Smart DCC's records.

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

Materiality for the Company Regulatory Financial Statements as a whole was set at £9.0 million (2020: £8.0 million), determined with reference to a benchmark of revenue, of which it represents 2.1% (2020: 1.8%). We consider total revenue to be the most appropriate benchmark than a profit-based benchmark given that the Company has been set up not to generate a profit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the Regulatory Financial Statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the Regulatory Financial Statements, which equates to £ 6.75 million (2020: £6.0 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

In addition, we applied materiality of £2.4 million (2020: £2.0 million), determined with reference to a benchmark of administrative expenses, of which it represents 2.1% (2020: 1.8%), and performance materiality of £1.8 million (2020: £1.5 million) to administrative expenses for which we believe misstatements of lesser amounts than materiality for the Regulatory Financial Statements as a whole could be reasonably expected to influence the users assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements in the Regulatory Financial Statements as a whole exceeding £0.45 million (2020: £0.40 million), and administrative expenses exceeding £0.12 million (2020: £0.10 million), in addition to other identified misstatements that warranted reporting on qualitative grounds

4 Going concern

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

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Losing the License due to a revocation event, service failure or reputational damage, putting future licence renewal at risk; and
- Threat to the Company delivering expected business performance.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

Our procedures also included:

- Since the entity may need financial support from other group entities if risks crystallise, we assessed the risk that this support would not be available. We inspected letters received by the Directors indicating the group's intention to provide this support, examined Regulatory Financial Statements to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.
- Critically assessing assumptions in base case and downside scenarios relevant to liquidity, in particular in relation to risks by comparing to the entity' plans based on approved budgets and our knowledge of the entity and the sector in which it operates.
- We considered whether the going concern disclosure in note 2 to the Regulatory Financial Statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Financial Statements is appropriate;
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- We have nothing material to add or draw attention to in relation to the Directors' statement in note 2 to the Regulatory Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable..

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting, audit and risk committee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue recognition is driven by the costs being recognised.

We also identified a fraud risk related to the existence and accuracy of costs in response to the regulatory requirements of complying with the Smart Meter Communication License, which permits it to recharge certain costs to Service Users (customers).

Further detail in respect of the existence and accuracy of costs is set out in the key audit matter disclosures in section 2 of this report. We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted to seldom used accounts and those posted by seldom users.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Financial Statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Regulatory Financial Statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Financial Statements including financial reporting legislation (including related companies legislation), taxation legislation, the retail energy code and smart energy code and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Regulatory Financial Statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and money laundering, employment law, GDPR compliance, Ofgem, environmental protection legislation, consumer rights act and export control. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Regulatory Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Regulatory Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

Strategic report and Directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the Regulatory Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to

- The Directors' confirmation within the Directors' statement of longer-term viability (page 57) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- The Principal Risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- The Directors' explanation in the longer-term viability of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our Regulatory Financial Statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the Regulatory Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Regulatory Financial Statements and our audit knowledge:

- The Directors' statement that they consider that the annual report and Regulatory Financial Statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- The section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the Regulatory Financial Statements, and how these issues were addressed; and
- The section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

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

Under the terms of the Licence between Ofgem and the Company, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 80, the Directors are responsible for: the preparation of the Regulatory Financial Statements in accordance with the Condition 30 of the Regulatory Licence and the accounting policies set out therein; such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

- Identify and assess the risks of material misstatement of the Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to de sign audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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

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

Polina Nikolaev ACA (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

1 July 2021

9. Financial Statements

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Revenue	3	430,351	433,046
Cost of sales	5	(314,850)	(320,355)
Gross Profit		**115,501**	**112,691**
Administrative expenses	6	(113,620)	(110,993)
Operating profit		**1,881**	**1,698**
Depreciation	12	(1,752)	(1,513)
Finance income	9	11,761	14,519
Finance costs	9	(11,890)	(14,704)
Profit before taxation		–	–
Tax	10	–	–
Result for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year attributable to the owners of the Company		–	–

The notes on pages 95 to 112 form an integral part of the financial statements.

Statement of financial position as at 31 March 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Unbilled revenue due in more than one year	11	423,667	487,365
Property, plant and equipment	12	8,320	10,072
Total non-current assets		**431,987**	**497,437**
Current assets			
Trade and other receivables	13	182,432	254,709
Cash and cash equivalents	14	91,096	55,000
Total current assets		**273,528**	**309,709**
Total assets		**705,515**	**807,146**
Liabilities			
Current liabilities			
Trade and other payables	15	236,148	284,042
Deferred revenue		42,507	32,055
Lease liability	16	665	494
Total current liabilities		**279,320**	**316,591**
Non-current liabilities			
Payables due in more than one year	11	423,667	487,365
Lease liability	16	1,838	2,500
Other non-current liabilities		690	690
Total non-current liabilities		**426,195**	**490,555**
Total liabilities		**705,515**	**807,146**
Total net assets		–	–
Equity			
Share capital	18	–	–
Retained earnings		–	–
Total equity		–	–

The financial statements on pages 92 to 94 were approved and authorised for issue by the Board of Directors on 29 June 2021 and signed on its behalf by:

Richard McCarthy CBE, Chairman
30 June 2021

Smart DCC Limited
Company registered number: 8641679

The notes on pages 95 to 112 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 March 2021

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 April 2019	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2020 and 1 April 2020	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2021	–	–	–

Statement of cash flows for the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Net cash flows from operating activities	20	36,225	13,952
Net cash flows used in investing activities	20	–	(3,383)
Net cash flows used in financing activities	20	(129)	(185)
Net increase in cash and cash equivalents		**36,096**	**10,384**
Cash and cash equivalents at the beginning of the year		55,000	44,616
Cash and cash equivalents at the end of year	14	**91,096**	**55,000**

The notes on pages 95 to 112 form an integral part of the financial statements.

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

1. GENERAL INFORMATION

Smart DCC Limited is a private Company incorporated, domiciled and registered in England and Wales under the Companies Act 2006. The address of the registered office is 65 Gresham Street, London, England, EC2V 7NQ. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 14 to 57 but can be summarised as managing the delivery of services to Great Britain's energy industry that facilitates secure communications between energy systems and smart meters.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

b) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2021, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration of the current COVID-19 pandemic in the UK, for the reasons set out below.

As at 31 March 2021, the Company had total assets less current liabilities of £426.2m. Liquidity as at that date was £91.1m, made up of cash and cash equivalents.

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

Management has modelled several plausible downside case scenarios that cover the period to 31 March 2023. As the Company is entirely funded by SEC Parties, who are also impacted by the pandemic, the plausible downside case scenarios focus on the impact of lack of payment by customers. The Directors consider the scenarios to be extremely prudent and unlikely to occur. However, by considering such cases Management has ensured that mitigations the Company has in place would be sufficient to ensure adequate liquidity in extreme circumstances.

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

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

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

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

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

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

In addition, the Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15.0m (2020: £15.0m).

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

1. The six largest[17] customers failing to pay one months' invoice in the same month
2. The largest customer failing to pay invoices for three consecutive months
3. The largest customer failing to pay invoices for six consecutive months
4. Several medium[18] sized customers failing to pay invoices for the same three consecutive months
5. All smaller[19] customers failing to pay invoices for the same six consecutive months

In all scenarios it has been assumed that failure to pay would arise from October 2021, this is when the cash forecast has started to reduce and if customers have cashflow issues, these predominantly arise when the temperatures in the UK start to drop.

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

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

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

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

At the same time as the approval and signing of this Annual Report the Directors have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. Further detail is contained in the Strategic Report on pages 14 to 57.

c) Functional and presentational currency

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

d) Use of judgements and estimates

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

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

17 Determined by value of monthly invoices
18 Customers just outside the top six largest customers
19 Customers with monthly invoices less than £0.3m

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

e) Changes in accounting policies

A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

f) Revenue

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

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

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

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

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

g) Taxation

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

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

h) Recognition of costs for work completed against contracts

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

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

i) Financial instruments

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

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

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

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

iii. Derecognition

Financial assets

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

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

Financial liabilities

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

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

iv. Impairment

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

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

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

v. Offsetting

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

j) Leases

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

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

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

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

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

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

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

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

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

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

iii. any initial direct costs; and

iv. restoration costs.

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

k) Property, plant and equipment

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

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

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2021 £'000	2020 £'000
Continuing operations		
Charges to customers (excluding amounts relating to finance	584,488	472,000
Accrued income	(154,137)	(38,954)
	430,351	**433,046**

Accrued income represents revenue earned in the year for work completed by our key Service Providers in line with contractual obligations, to be billed to customers in future periods, offset against amounts billed to customers for revenue earned in previous periods. In 2021, the value of new work completed is significantly lower than in previous years as set-up related activity is reducing on the SMETS2 programme.

Contract balances

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

	2021 £'000	2020 £'000
Unbilled receivables due >12 months	220,843	301,403
Trade receivables	104,704	181,545
	325,547	**482,948**

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, as set out in the Licence, therefore there is one segment for revenue and results.

Geographical information (external customers)

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

Information about major customers

During the year the Company earned revenue from 162 customers. Of these, two customers, British Gas Trading Limited and E.ON Energy Solutions Limited, individually each contributed to more than 10% of revenue.

5. COST OF SALES

	2021	2020
	£'000	£'000
External costs	273,621	284,433
Pass through costs	32,788	30,969
Other external costs	8,441	4,953
	314,850	**320,355**

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

6. ADMINISTRATIVE EXPENSES

	2021	2020
	£'000	£'000
Staff costs	55,576	53,508
Margin and gain share	14,583	13,886
Professional fees	16,784	14,550
Corporate overhead	13,268	6,512
IT operating expenses	8,417	15,302
Office accommodation	3,200	3,849
Recruitment costs	1,414	1,154
Travel and subsistence	82	1,573
Other costs	296	659
	113,620	**110,993**

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

7. AUDITOR'S REMUNERATION

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

	2021	2020
	£'000	£'000
Fees payable to the Company's auditor for the audit of the annual accounts	67	59
Total audit fee for statutory and regulatory accounts	**67**	**59**
Fees payable to the Company's auditor for other services to Other assurance services	30	30
Total non-audit fee	**30**	**30**

Total fees of £77.4k were due to the auditor as at 31 March 2021 (2020: £71.4k). Other assurance services include review of a certificate of financial resources and carrying out of a set of Agreed Upon Procedures, as required under the terms of the Licence.

8. STAFF COSTS

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

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

	2021	2020
Operations	208	178
Programme management	161	123
Finance, Commercial, Legal and Facilities	106	84
Technology	21	69
Other	101	77
	597	**531**

Their aggregate remuneration (including overhead) comprised:

	2021	2020
	£'000	£'000
Wages and salaries	50,305	47,913
Severance pay	95	551
Social security costs	4,164	3,862
Other pension costs	1,012	1,182
	55,576	**53,508**

9. FINANCE INCOME AND COSTS

	2021 £'000	2020 £'000
Finance income		
Recovery of finance costs from customers	11,761	14,519
Total finance income	**11,761**	**14,519**
Finance costs		
Finance costs on milestone repayments	(11,689)	(14,519)
Lease interest expense	(12)	–
Finance bond interest and charges	(178)	(174)
Bank service charges	(11)	(11)
Total finance costs	**(11,890)**	**(14,704)**

10. TAX

	2021 £'000	2020 £'000
Current tax	–	–
Deferred tax	–	–
	–	–

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 19% (2020: 19%). No tax amounts have been recognised directly in equity during the year (2020: £nil).

11. NON-CURRENT ASSETS AND LIABILITIES

Included in both non-current assets and non-current liabilities are amounts of £423.7m (2020: £487.4m), representing amounts due from customers and due to Service Providers respectively.

	2021 £'000	2020 £'000
Unbilled receivables in respect of milestones	220,843	301,403
Unbilled receivables in respect of communication hubs	202,824	185,962
	423,667	**487,365**

	2021 £'000	2020 £'000
Supplier payables in respect of milestones	220,843	301,403
Supplier in respect of communication hubs	202,824	185,962
Provision for lease hold restoration costs	690	690
	424,357	**488,055**

At 31 March 2021, our Service Providers had achieved multiple contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, hence a non-current liability of £220.8m (2020: £301.4m) has been recognised, representing amounts payable after 31 March 2021.

These amounts will be recoverable from customers and therefore, a corresponding amount of £220.8m (2020: £301.4m) has been recognised as a non-current asset.

In addition, our Service Providers have been providing our customers with SMETS2 communication hubs. These hubs are installed in consumer homes and allow our customers to use our network. The cost of a communication hub is charged to the DCC by our Service Providers over time, and similarly we recover the value of a communications hub to our customers over the same time period at the same value. As at the end of the reporting period we have recognised the amounts payable over 12 months for communication hubs accepted by customers at £202.8m (2020: £186.0m).

These amounts will be recoverable from customers and therefore, a corresponding amount of £202.8m (2020: £186.0m) has been recognised as a non-current asset.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Land and buildings £'000	Total £'000
Cost or valuation			
At 31 March 2020	8,380	3,288	11,668
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
At 31 March 2021	**8,380**	**3,288**	**11,668**
Depreciation			
At 31 March 2020	(1,048)	(548)	(1,596)
Charge for the period	(1,275)	(477)	(1,752)
Eliminated on disposal	–	–	–
At 31 March 2021	**(2,323)**	**(1,025)**	**(3,348)**
Carrying amount			
At 31 March 2020	7,332	2,740	10,072
At 31 March 2021	**6,057**	**2,263**	**8,320**

At year end, the net carrying amount of land and buildings was £2.3m (2020: £2.7m) which relates to the lease of Brabazon House, Manchester. The lease obligations are disclosed in note 16.

13. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Unbilled receivable for milestones due in less than 12 months	103,063	176,761
Unbilled receivable for communication hubs due in less than 12 months	31,074	26,043
Accrued income	43,213	44,255
Trade receivables due from customers	1,641	4,784
Prepayments	1,960	1,584
Other receivables	1,481	1,282
	182,432	**254,709**

Unbilled receivables of £134.1m (2020: £202.8m) is the amount to be recovered in the next year from customers for work completed as at the reporting date, and for communication hubs accepted by customers as at the reporting date. The corresponding amount due to Service Providers less payments in advance is recognised in trade payables (see note 15). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value

Accrued income represents amounts due from customers for the month of March 2021 but billed in April 2021, therefore not received at the reporting date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month. The average credit period taken on sales of service is five days from receipt of invoice.

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

14. CASH AND CASH EQUIVALENTS

	2021 £'000	2020 £'000
Cash at bank	71,962	40,025
Credit cover deposits from customers	19,134	14,975
	91,096	**55,000**

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

15. TRADE AND OTHER PAYABLES

	2021 £'000	2020 £'000
Trade payables for milestones due in less than 12 months	100,798	174,472
Trade payables for communication hubs due in less than 12 months	31,074	26,043
Accruals	37,188	46,899
Trade payables due to customers	19,134	14,976
Related party payable	21,963	5,702
Trade payables due to suppliers	9,837	10,256
VAT payable	16,154	5,694
	236,148	**284,042**

Amounts due in less than one year for milestones and communication hubs are amounts that are due to be paid in the next year to Service Providers in respect of payments due on in line with supplier contracts at the reporting date. These amounts will be recoverable from customers and therefore an amount of £134.1m (2020: £202.8m) has been recognised in trade and other receivables (see note 13).

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

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

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

16. LEASE LIABILITY

	Carrying amount £'000
At 31 March 2020	2,994
Lease liability addition	–
Interest charge	12
Repayments made during the period	(503)
At 31 March 2021	**2,503**
Of which:	
Lease liability due in less than 12 months	665
Lease liability due in more than 12 months	1,838
	2,503

The Company recognises depreciation charges and additional interest charges in relation to leases within the statement of profit and loss and other comprehensive income as well as disclosing in the notes to the financial statements.

17. OFF BALANCE SHEET ARRANGEMENTS

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £1,403.8m (2020: £1,466.9m). This represents payments that the Company is obliged to make in for contractually committed operational charges to Service Providers in line with their contracts from the date of services going live.

18. SHARE CAPITAL

	2021 £'000	2020 £'000
Authorised, issued and fully paid:		
1 ordinary share of £1 each	–	–

19. FINANCIAL INSTRUMENTS

Categories of financial instruments:

	2021 £'000	2020 £'000
Financial Assets at amortised cost		
Unbilled revenue due in more than one year	423,667	487,365
Trade and other receivables	182,432	254,709
Cash and bank balances	91,096	55,000
	697,195	**797,074**

	2021 £'000	2020 £'000
Financial Liabilities at amortised cost		
Payables due in more than one year	423,667	487,365
Trade and other payables	236,148	284,043
Lease liability	2,503	2,994
	662,318	**774,402**

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

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

	2021 £'000	2020 £'000
Contractual cash flows		
1 year or less	128,187	194,095
1 to 2 years	95,350	123,277
2 to 5 years	231,204	261,397
Beyond 5 years	78,297	112,519
Total	**533,038**	**691,288**
Amounts due in more than one year	423,667	487,365
Amounts due in less than one year	131,872	200,515
Carrying amount	**555,539**	**687,880**

FINANCIAL RISK MANAGEMENT

Capital risk

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

Credit risk

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

Customer Value at Risk (VaR) x Customer Unsecured Credit Factor (UCF) factor

The UCF is determined based on maximum credit value and recognised credit ratings from independent rating agencies or based on credit assessment scores from independent credit assessment agencies. The requirement is reviewed on a weekly basis by the Company.

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

Liquidity risk

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

Management monitor the risk of having a shortage of funds using a daily cash management process. This process considers the maturity of both the Company's creditors (e.g. accounts payable, VAT payments) and projected cash receipts from operations. The Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15.0m.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company is exposed to foreign exchange risk and to fluctuating lending rates, with respect to communication hub purchases. This risk is mitigated by the fact DCC operates on a cost recovery model.

20. CASH FLOW STATEMENT

	2021 £'000	2020 £'000
Profit for the year	–	–
Adjust for:		
Net finance costs	129	185
Depreciation	1,752	1,513
Other non-cash movements	(843)	2,812
Decrease/(Increase) in trade and other receivables	3,987	(16,851)
Increase in trade and other payables	20,748	14,318
Increase in deferred revenue	10,452	11,975
Net cash from operating activities	**36,225**	**13,952**
Net cash used in investing activities	**–**	**(3,383)**
Recovery of finance costs from customers	11,761	14,519
Finance costs on milestone repayments	(11,890)	(14,704)
Net cash used in financing activities	**(129)**	**(185)**

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

21. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

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

Key Management Personnel

The total amounts for Directors' remuneration were as follows:

	2021 £'000	2020 £'000
Salaries, fees, bonuses and benefits in kind	773	992

cluded in the amount shown above is £369.1k (2020: £483.9k) in respect of qualifying services for the highest paid Director which was all paid as salary, bonus and benefits. There was £12.0k (2020: £12.0k) paid in pension contributions. The Directors of the Company are considered to be the Key Management Personnel.

Balances and transactions with other group undertakings

	2021 £'000	2020 £'000
Amounts included in operating profits	90,608	90,647
Amounts owed to related parties	21,963	5,702
Amounts owed from related parties	–	–

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

22. EVENTS AFTER BALANCE SHEET DATE

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