Internal Costs - Contents

I. Corporate Management – RY20/21 Variances Overview

Cost Centre Variance in RY20/21 by GL

The table below provides a breakdown of incurred and forecasted costs in Price Control format below i.e. mapping costs directly against the price control General Ledger codes (GLs).

Baseline (£m)			RY20/21	RY21/22	RY22/23
Total Corporate Management			12.106	12.258	2.817
Payroll costs	PR	£m	6.213	6.099	1.035
Non-payroll costs	NP	£m	0.217	0.222	0.087
Recruitment	RC	£m	0.056	-	0.072
Accommodation	AC	£m	4.049	5.036	1.585
External services	ES	£m	1.397	0.727	0.013
Internal services	IS	£m	0.096	0.096	0.025
IT Services	IT	£m	0.050	0.050	-
Office Sundry	OS	£m	0.028	0.028	-
Incurred (£m)			RY20/21	RY21/22	RY22/23
Total Corporate Management			14.172	14.282	13.730
Payroll costs	PR	£m	5.957	6.872	7.278
Non-payroll costs	NP	£m	0.225	0.264	0.268
Recruitment	RC	£m	0.121	0.179	0.005
Accommodation	AC	£m	5.757	5.445	5.652
External services	ES	£m	1.877	1.427	0.431
IT Services	IT	£m	0.117	0.096	0.096
Office Sundry	OS	£m	0.118	-	-
Variance (£m)			RY20/21	RY21/22	RY22/23
Total Corporate Management			2.066	2.024	10.913
Payroll costs	PR	£m	-0.256	0.773	6.244
Non-payroll costs	NP	£m	0.007	0.042	0.181
Recruitment	RC	£m	0.065	0.179	-0.067
Accommodation	AC	£m	1.708	0.409	4.067
External services	ES	£m	0.481	0.700	0.418
Internal services	IS	£m	0.021	-	0.071
IT Services	IT	£m	-0.050	-0.050	-
Office Sundry	OS	£m	0.090	-0.028	-

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Corporate Management cost centre.

Corporate Management Payroll Costs	RY20/21	RY21/22	RY22/23
Baseline	6.213	6.099	1.035
Business Improvement and Internal Audit	0.836	0.836	-
Communications	1.090	1.130	-
Economic Regulation	0.375	0.379	-
Executive and Board	0.963	0.867	0.567
Regulatory Affairs Office	0.202	0.202	-
Regulatory Design and Delivery	0.921	0.965	0.345
Regulatory Governance	0.435	0.435	-
Regulatory Strategy and Performance Management	0.344	0.344	-
Strategic Customer Engagement	0.467	0.400	-
Strategy and Product Management	0.580	0.541	0.122
Incurred	5.898	6.872	7.278
Business Improvement and Internal Audit	0.773	0.943	1.000
Communications	0.951	1.169	1.164
Corporate & Business Planning	0.289	0.374	0.374
Economic Regulation	0.386	0.514	0.550
Executive and Board	0.935	0.624	0.612
Regulatory Affairs Office	0.175	0.356	0.482
Regulatory Design and Delivery	0.560	0.806	1.008
Regulatory Governance	0.334	0.540	0.575
Regulatory Strategy and Performance Management	0.488	0.698	0.750
Strategic Customer Engagement	0.562	0.848	0.765
Strategy and Product Management	0.445	-	-
Variance	-0.315	0.772	6.224
Business Improvement and Internal Audit	-0.063	0.107	1.000
Communications	-0.139	0.039	1.164
Corporate & Business Planning	0.289	0.374	0.374
Economic Regulation	0.011	0.135	0.550
Executive and Board	-0.028	-0.243	0.044
Regulatory Affairs Office	-0.027	0.154	0.482
Regulatory Design and Delivery	-0.361	-0.159	0.663
Regulatory Governance	-0.101	0.105	0.575
Regulatory Strategy and Performance Management	0.144	0.354	0.750
Strategic Customer Engagement	0.095	0.448	0.765
Strategy and Product Management	-0.136	-0.541	-0.122

1 Corporate Management Cost Centre

1.1 Purpose, Scope and Structure

The Corporate Management cost centre includes primary regulatory and strategy functions and broader corporate capabilities, such as communications, internal audit, and customer engagement. The capabilities can broadly be classified into three different areas:

- **Regulatory Affairs** – including economic regulation, preparation of regulatory documents, engagement in regulatory forums, consideration of the future regulatory regime, development of corporate strategy, oversight of preparations for future activity, customer engagement, regulatory stakeholder engagement and code development.

- **Corporate Affairs** - including internal and external communications, website management and broader stakeholder engagement.

- **Business improvement and internal audit**: this includes capabilities such as internal audit, risk management, regulatory compliance, and broader business continuous improvement.

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

Corporate Management also includes several corporate costs including:

- Accommodation costs including rent, rates, office supplies and equipment
- Test Labs
- Customer-focused items such as the Customer Engagement Portal
- Price Control support for the organisation

Key events and objectives driving activity and cost

The main deliverables, and therefore the drivers of costs over the course of RY20/21 include:

- **Regulatory Affairs**
  - Delivery of customer/regulatory stakeholder engagement activities including the management of DCC's engagement with SEC Panel and its committees, and other engagement with DCC customers through the Quarterly Finance Forum, other forums such as SMDG, IMF, Energy UK events etc and directly through bilaterals and webinars.
  - Delivering the regulatory requirements associated with REC development
  - Strategy work including formulation of corporate strategy, the 10-year roadmap and 5-year business and development plan, as well as responding to significant consultations such as Ofgem's Call for Evidence on the Future of DCC
  - Policy analysis to inform strategy development and engagement with key stakeholders
  - Working alongside stakeholders, including Ofgem, on the OPR scheme implementation
  - Delivering the annual Price Control
  - Advising on SEC modifications
  - Working with BEIS and Ofgem to coordinate responses to early requests to develop propositions on additional mandated activity e.g. Electric Vehicle Charging
  - Business Development primarily focussed on managing the contacts with external parties who express interest in the DCC network and its capabilities such as Government, academia, prospective other users

- **Corporate Affairs**
  - Managing an increasing volume of engagements and digital content relating to SMETS1, SMETS2 and Switching activities
  - Reviewing and refreshing DCC's intranet site
  - Improving digital content on DCC's website
  - Working on our social media presence including LinkedIn to ensure we attract the best possible candidates to apply for roles at DCC

- **Business Improvement and Internal Audit**
  - o Delivering the Board-approved schedule of Internal Audit
  - o Continuous improvement training to a six sigma 'yellow belt' standard for around 25% of DCC staff, building a network of trained 'change agents'

- **Accommodation**
  - o The first full year of operating the Test Labs at our Brabazon House Office.

1.1.1 Cost Centre Structure

Current and forecast structure of Corporate Management

The structure of the Corporate Management cost centre has remained broadly similar over this reporting period.as shown in the figure below. To note, the Corporate Affairs is comprised of a number of sub-teams, as per the tables below.
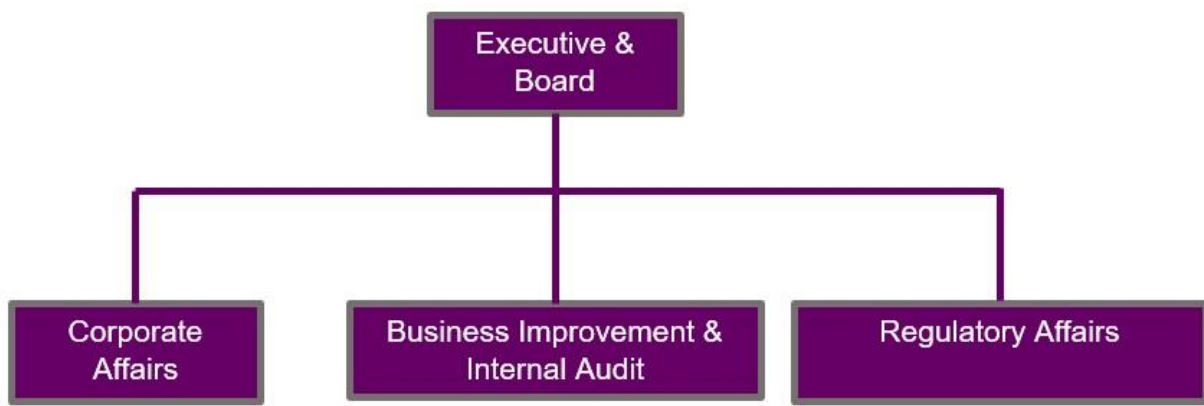
As reported in our 2019/20 submission, some of the team members from the Strategy and Product Management team were transferred to the Corporate Management cost centre following the departure of the Chief Strategy and Product Management Officer. The three primary sections of the team, as outlined in RY19/20, are updated below with their new reporting lines.

- **Strategy and Business Development**
  Strategy and Business Development functions report into the Chief Regulatory Officer
  - o Develop and iterate DCC's 10-year business strategy and 5-year plan
  - o Ensure the business is making decisions in line with DCC's strategy
  - o Manage contacts with parties expressing interest in the use of DCC smart meter data or the functionality of the DCC network and the potential for reuse
  - o Coordinate DCC's growth activities – primarily working with BEIS and Ofgem to respond to consultations and requests for evidence on how DCC can deliver additional policy interventions e.g. on fuel poverty, energy efficiency and load control.

- **Business Planning**
  The Business Planning function now reports into the Executive Business Team. The team is now formed of 4 people delivering both the existing functions of providing Executive and Board support and governance, and since the inclusion of the two staff members from the Strategy and Product Management team, the following key activities:
  - o Working with the organisation to develop Business Plans for each function
  - o Monitoring and measuring execution against the Business Strategy and Plan
  - o Manage the translation of the 5-year plan into a coherent business plan to inform the budgeting process

- **Product Management**
  - Supporting the development of technical solutions related to Electric Vehicles, supporting vulnerable customers, experimentation and testing.

There have also been some minor changes in the Regulatory Affairs and Corporate Affairs sub-teams, as set out below.

Regulatory Affairs

- The Strategic Customer Engagement Team and the Regulatory Governance Team within Regulatory Affairs are now headed by a new permanent Director of Customer and Stakeholder Engagement.

- Two members of staff working on Strategy and Business Development were transferred to the Regulatory Strategy sub-team. They were previously in the Product Management and Strategy team.

Corporate Affairs

- We introduced a new time-limited role, Programme Communications Manager, to enable dedicated communications associated with our key programmes, and in particular, Switching. This role expired in 2021. This role is not being replaced, however, some of the work delivered by this post-holder will now be delivered by a new role of Communication Manager – DNO which at the time of writing was being recruited and will cover the Programme communications for more than one programme, including Switching, as well as support for DNO-related workstreams.

1.2 Cost Centre Variances

Variance by GLs in the RIGs

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

Table 1: Variance from the RIGs by GL

				RY20/21	RY21/22	RY22/23
Total Baseline	**Total Corporate Management**		£m	**12.106**	**12.258**	**2.817**
Total Incurred	**Total Corporate Management**		£m	**14.172**	**14.282**	**13.730**
Total Variance	**Total Corporate Management**		£m	**2.066**	**2.024**	**10.913**
	Payroll costs	PR	£m	-0.256	**0.773**	**6.244**
	Non-payroll costs	NP	£m	0.007	0.042	**0.181**
	Recruitment	RC	£m	0.065	**0.179**	-0.067
	Accommodation	AC	£m	**1.708**	**0.409**	**4.067**
	External services	ES	£m	**0.481**	**0.700**	**0.418**
	Internal services	IS	£m	0.021	-	0.071
	IT Services	IT	£m	-0.050	-0.050	-
	Office Sundry	OS	£m	0.090	-0.028	-

Payroll costs variance

The overall Payroll costs variance is negative.

Variance by Sub-Team

In RY20/21, the Payroll Variance is negative. Only the Corporate and Business Planning team showed a material variance that exceeds the threshold of £0.15m.

In the forecast, Corporate & Business Planning, the Regulatory Affairs Office, Regulatory Strategy and Performance Management and Strategic Customer Engagement show material variance in RY21/22.

In the forecast, two teams do not show an expected material variance in RY22/23 Strategy and Product Management (which ceased to be a team beyond 20/21 owing to the restructure) and the Executive and Board sub-team.

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

Table 2: Variance by sub-team

Corporate Management Payroll Variance		RY20/21	RY21/22	RY22/23
Variance	**£m**	**-0.315**	**0.772**	**6.224**
Business Improvement and Internal Audit	£m	-0.063	0.107	**1.000**
Communications	£m	-0.139	0.039	**1.164**
Corporate & Business Planning	£m	**0.289**	**0.374**	**0.374**
Economic Regulation	£m	0.011	0.135	**0.550**
Executive and Board	£m	-0.028	-0.243	0.044
Regulatory Affairs Office	£m	-0.027	**0.154**	**0.482**
Regulatory Design and Delivery	£m	-0.361	-0.159	**0.663**
Regulatory Governance	£m	-0.101	0.105	**0.575**
Regulatory Strategy and Performance Management	£m	0.144	**0.354**	**0.750**
Strategic Customer Engagement	£m	0.095	**0.448**	**0.765**
Strategy and Product Management	£m	-0.136	-0.541	-0.122

1.3   Drivers for Variance – Resource

As set out in the table above, one sub-team is showing material variances in incurred costs in RY20/21. The reasons for these resource variances are set out below.

1.3.1   RY20/21 Variance Corporate & Business Planning

The Corporate and Business Planning Team lead on core activities including business planning, resource planning and supporting teams across the organisation to both draft their business plans and to measure and report the success against those plans. The variance in RY20/21 is caused by the relocation of the team from the Strategy and Product Management team into the Corporate Management Team.

Activities driving change in resource in RY20/21

The departure of the Chief Strategy and Product Management Officer led to a minor reorganisation with the relocation of the team from the Strategy and Product Management team into the Corporate Management Team, creating the variance in this cost centre.

Activities driving change in resource in RY21/22 and RY22/23

The reorganisation took place after the forecasts had been set for RY21/22 and RY22/23, so this variance is shown. To note, the difference in the variance between RY20/21 (£289k) and RY21/22 and RY22/23 (£374k) per year is owing to the fact that the reorganisation took place in July 2020, so only part of the cost of this team for the year was allocated to this cost centre in RY2020/21. The full cost of the team is shown in RY21/22 and RY22/23.

1.3.2 RY21/22 Forecast Variance – Specific Teams

As set out in the table above, three further sub-teams are showing material variances in incurred costs in RY20/21. The reasons for these forecast resource variances are set out below.

Regulatory Affairs Office

The team is formed of the Chief Regulatory Officer and their PA as well as a Graduate for the wider Regulatory Affairs team.

Activities driving change in resource in RY21/22

The sub-team's RY20/21 resources (Chief Regulatory Officer, PA and Graduate) remain, as they are required on an enduring basis.

The forecast variance increases in RY21/22 as we plan to recruit a new Director of Policy and Markets role to this team, as we build capability to lead the thinking needed to respond to the future changes to DCC's regulatory regime that will emerge when the licence expires.

There are no further changes to the team in RY22/23 and we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

Regulatory Strategy and Performance Management

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

Activities driving change in resource in RY21/22

The variance appears in RY21/22 as there are some roles in the team that were not fully forecast, including a Programme Manager who provides support to programmes with their regulatory governance and processes and a Policy Development Manager role who leads on the medium-term view of the external environment.

Strategic Customer Engagement

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

Activities driving change in resource in RY21/22

The variance appears in RY21/22 as there are several roles that are already in the team but were not fully forecast last year, such as the Director of Customer and Stakeholder Engagement. Some roles have been added to the team; including a role that focuses on the DNO Transformation Programme engagement planning and a role that focuses on ensuring our documents are clear and transparent for customers. The changes are designed to allow DCC to deliver customers' request for better engagement and involvement in our decision-making process, and to respond to the incentives placed upon us by the new OPR regime.

There are further possible changes to this Cost Centre in RY21/22 that have been planned since the forecast was set at the end of RY20/21. The Strategic Customer Engagement team will be relocating from the

Regulatory Affairs team to report into the Chief Risk Officer whose role also encompasses Business Improvement and Transformation to ensure this core workstream receives the senior-level of focus it deserves.

1.3.3 RY22/23 Forecast Variance – All Teams

There is significant variance for all except two teams in RY22/23; the variance is caused as we continue to deliver the expected and planned activities for each team but compare it to a much lower baseline due to wholesale forecast disallowances in the third year.

The exceptions to this are the Executive and Board sub-team which moves into non-material positive variance in the third year owing to a continued reduction in previously forecast requirement at this level and the Strategy and Product Management team which ceased to exist in RY20/21.

1.3.4 Non-payroll Costs Variance

There is a non-payroll cost variance forecast in RY22/23, this is caused by the disallowance of third year costs. There is no major change in expected activity.

1.3.5 Recruitment Costs Variance

There is a recruitment cost variance forecast in RY21/22, this is caused by the expected increase in recruitment activity as the team grows slightly in this year. The expected spend will be incurred to meet the predicted needs across all 10 sub-teams, some specific examples include, recruitment will be undertaken in Regulatory Governance for some further resource to support the REC going live; and some recruitment will be undertaken in Regulatory Design and Delivery to support the DNO programme of work.

1.4 Drivers for Variance – Non-Resource

1.4.1 Summary

There is material variance showing in RY20/21 the Accommodation Cost Centre and three External Services items. There is further anticipated to be material variance in these areas in RY21/22 and RY22/23. The procurements with material variations are highlighted in Table 3 below and explained further in this section.

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

	Incurred (£m)		RY20/21	RY21/22	RY22/23	
	Total Incurred Accommodation	£m	5.757	5.445	5.652	
	Total Incurred External Services	£m	1.877	1.427	0.431	
	Variance (£m)		**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance Accommodation	£m	1.708	0.409	4.067	
	Total Variance External Services	£m	0.481	0.700	0.418	
GL	**Variance (£m)**		**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**
AC	Ibex House Repairs	£m	**0.153**	0.109	0.121	N/A
AC	Fit Out/Furniture	£m	0.119	**0.235**	**0.235**	N/A
AC	Brabazon - Rent	£m	**0.568**	-0.116	**1.486**	N/A
AC	Brabazon - Fit Out	£m	**1.319**	**0.671**	**1.483**	N/A
AC	Ibex House Rent	£m	0.036	-0.147	**0.388**	N/A

AC	Ibex House Rates	£m	-0.026	0.013	**0.156**	N/A
AC	Accommodation Ruddington Rent	£m	0.064	**0.600**	**0.600**	N/A
ES	Audit/Assurance	£m	**0.150**	-	-	REDACTED
ES	Policy Audit	£m	-	**0.167**	**0.156**	REDACTED
ES	Engagement on EVs	£m	-	**0.280**	-	REDACTED
ES	Customer Engagement Portal	£m	0.121	**0.395**	**0.195**	TBC in RY21/22
ES	Price Control Support	£m	**0.258**	-	-	REDACTED
ES	REDACTED	£m	0.082	**0.200**	-	TBC in RY21/22
ES	Consultancy (Regulation)	£m	**0.172**	-	-	REDACTED
ES	Innovation & Growth Strategy	£m	**0.155**	-	-	REDACTED
ES	CMMI Reporting		-	**0.150**	0.050	TBC in RY21/22

1.5 Accommodation costs

There have been three items of material variance within the Accommodation Costs RIGS GL Code in RY20/21. The majority of the spend is associated with the continuation of activities outlined in both the RY18/19 and RY19/20 submission regarding Brabazon House and the Test Labs as this moves from the 'fit-out' phase into live occupation and operation. There are then multiple items of predicted variance in RY21/22 and RY22/23 including rent in each DCC office.

Across the Accommodation costs item, DCC's incurred costs have been, and are forecast to remain, largely stable, moving in a range of £5.4m to £5.8m. The underlying baseline moves in a much wider range, resulting in large variances. We will use the RY20/21 data to look at how to improve our forecasting capability for repeating items such as rent and rates. However, the Covid-19 pandemic has both caused and suppressed some costs, so there may indeed be further fluctuation in future as the true, stable operating cost of areas such as Test Labs becomes clear once the pandemic ends and actual BAU operation may commence.

We provide justification for material items below.

1.5.1 Ibex House - Repairs

Ibex House required various repairs during RY2020/21 the material variance is made up of these minor items totalled rather than any one significant driver of cost. The repairs related to a variety of factors including leaks, electrical works and repairs to the automatic doors that allow secure access. Some of this is related to Covid-19 adaptation, for example, the main security access doors to Ibex House now have hand-wave scanners and do not need to be touched. This was to reduce the risk of Covid-19 transmission from those doors in high usage by critical workers during the peak of the pandemic and all staff once the restrictions were eased. The adaptation was proportionate, doors that are subject to less use e.g. to the fire escape stairwells have not been fitted with such equipment.

1.5.2 Fit Out/Furniture

This cost is formed of the furniture in Ibex House. The furniture, fixtures and fittings including items such as electronic equipment e.g. meeting room check-in screens are leased from the building owner rather than owned by DCC. This arrangement was established owing to DCC's licence term as it is not a permanent business entity and does not own many assets. This cost was not material in RY20/21 as it was linked to the reduced-rent year arrangement in accordance with the lease agreement. It is forecast to return to usual levels in RY21/22 and RY22/23.

1.5.3 Brabazon House - Rent

As noted in the 2019/20 Price Control submission, the rent payment was the first expected material cost at Brabazon House once it had commenced operation. The forecast for Brabazon-Rent for RY20/21 was £0.464m and the actual rent cost for RY20/21 was £0.430m.

The 'Price Control Brabazon – Rent' category includes items such as insurance, facilities management and service charges for the building. For example, when the business case for the Brabazon House Test Labs was undertaken, the following figures were assumed.

Table 4 – extract of Brabazon House costs

Brabazon House Item	RY20/21 assumption (£ms)
Building Rent	0.500
Building Rates	0.166
Building Service Charge	0.018
Building Facilities Management	0.350
Total	1.034

Some of these items did not meet the certainty threshold at the time of compiling the RY19/20 Price Control, and therefore were not included in the forecast and as such have created a material variance in this area.

We will continue to work with our Finance team to increase the 'certainty' status of items such as Service Charges going forward as these can be forecast to a relatively certain degree, this will remove some of the apparent variance from future submissions.

1.5.4   Brabazon House - Fit Out [Test Labs]

RY20/21 was the second year of operation for the Test Labs which are located at Brabazon House. We were expecting a typical year at the time of forecasting, however the Covid-19 pandemic has affected the work carried out.

We are pleased to report that customers have engaged fully with this service and the Test Labs are operating effectively. The Test Labs were a primary driver of the positive variance seen in this Cost Centre. As noted above, the variance was primarily due to forecasting thresholds and secondarily due to the Covid-19 pandemic, rather than a major change in the expected service provision and associated costs.

The labs have had to accommodate a large amount of SMETS1 meter testing in RY20/21 which was not a fully scheduled activity at the outset of this year. The intention was that SMETS2 meter testing would be the primary activity and some SMETS1 meter testing would be accommodated around the SMETS2 work in the year. The delay to aspects of the SMETS1 programme, including FOC, has had a knock-on impact to the required amount of work in the year.

There was some further Test Lab variance caused by meter transport and storage. While much had been done to prepare for the volumes of testing that might be done on the Brabazon House site, the testing volume was interrupted by Covid-19 before resuming. This had knock-on impacts to items such as transport and storage which needed to increase at short notice and incurred higher costs than had been expected.

Furthermore, additional meter transport and storage costs were incurred because of the delay to the FOC phase of the SMETS1 programme.

In RY20/21 there was a need for weekend working by the contractor who provides services to the Test Labs to cope with the volume of both SMETS1 and SMETS2 meter testing. Whilst an overtime provision was planned-in to the service and associated contracts for such events, it is not possible to include such items in the Price Control forecast owing to the certainty criteria and as such this causes an apparent variance.

Some items of fit-out for the main Brabazon House office facility were generated by Covid-19 response. For example, the SOC and TOC are based at Brabazon House and it was not possible for the roles of the whole team to be done from home owing to the high security requirements of their work and the information they oversee. As such, Covid-safe measures such as the installation of screens between desks, were put in place to ensure our staff could do their roles as safely as possible. Such measures were then rolled out to our offices in preparation for the return of all staff in the Summer of 2020.

As noted above, following the gradual relaxation of restrictions during Spring and Summer RY21/22 we will hopefully see a stabilisation in the work at the Test Labs and be able to report a more settled financial picture in the next Price Control submission.

1.5.5   Ibex House – Rent

Ibex House is our office in London. There is a very minor positive variance in RY20/21 and a minor positive variance forecast in RY21/22. There is a material positive variance in RY22/23 caused by the disallowance of forecasts in the third year.

1.5.6   Ibex House – Rates

Ibex House is our office in London. There is a minor positive variance forecast in the office rates category in RY22/23 caused by the disallowance of forecasts in the third year.

1.5.7   Discovery House - Rent

Discovery House is our office in Ruddington. In RY21/22 and RY22/23 there is a positive variance of £600k. This is the full cost of the rent and is a recurring cost until the end of the licence. The reason for the positive variance is owing to the low forecasting of rent and other items, as outlined earlier in this section.

1.6   External Services

There were four External Services procurements in RY20/21 that resulted in material variance. There are five items showing material variance in RY21/22 and two items in RY22/23. There is one item within the External Services category that is not showing material variance in RY20/21, however it is included here for completeness and to note it may yield material variance in RY21/22. These are discussed below.

1.6.1   Audit/Assurance

Driver for the Procurement

The DCC is required by its Licence to establish and maintain effective arrangements for corporate governance, internal control, and risk management. The DCC internal control framework includes the schedule of all applicable DCC policies, including a combination of policies inherited from Capita, the DCC parent company, and DCC-specific policies. Operation of the internal control framework is assured through the 'three lines of defence' model including internal audit.

In early 2020, the DCC Audit and Risk Committee reviewed and approved the internal audit plan for 2020/21 which included a combination of policy and risk-based audits. The 2020/21 audit plan included c40 policy audits, from a total of c60 policies in the overall policy schedule. Following approval of the audit plan, the DCC developed a sourcing strategy to deliver the specified audit services. The recommendation of the Audit and Risk committee was that this audit activity would initially be on the basis of a one-year contract.

Depending on initial performance, we would then consider whether to extend this to a multi-year or framework contract in future.

Internal Subject Matter Experts (SMEs) created a list of potential suppliers from the existing Consultancy Framework. Following this, a competitive procurement between framework providers was used to source the provider. The Request for Proposal was issued to six providers, two of which provided a submission.

The RFP was evaluation criteria was split 60% on quality and 40% on commercial grounds.

Table 5: Procurement Evaluation Breakdown – Audit/Assurance Requirements 20/21

Procurement – Audit/Assurance Requirements RY20/21		
Number of Bids received	2 bids from 6 invited suppliers	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	The reason for the award was that following a compliant and rigorous tender the recommendation represents the best value for money. REDACTED provided a similar quality response to the other bidder at a significantly lower price. The contract award under existing framework terms is for 12 months. The total fixed fee for delivery of all assurance activity and 38 individual audits is REDACTED. There is an additional 12% volume rebate due to DCC, on REDACTED annualised billings, as per the terms of the Framework.	
Challenge by DCC	**BAFO**	**BAFO**
	REDACTED	REDACTED

1.6.2 Policy Audit Services

Driver for the Procurement

As outlined in the previous section, the one year contract proceeded effectively and the team took steps to secure a service for the two following years, RY21/22 and RY22/23. (N.B. The titling is slightly different in our financial files, however, this is the continuation of the same required activity). A competitive tender was carried out for the two year contract from April 2021 to March 2023. The requirements were put out to tender as follows:

To provide internal audit services relating to:

- Assessing the effectiveness and maturity of Smart DCC's policy framework including its governance.
- Delivering policy audits according to the Audit and Risk Committee approved internal audit schedule; and
- Providing a policy writing service to remediate existing policies or create new policies.

Securing Value for Money

Table 6: Procurement Evaluation Breakdown – Policy Audit 21/22 and 22/23

Procurement – Policy Audit Services 21/22 and 22/23	
Number of Bids received	3 bids from 7 invited suppliers
Number of Bids shortlisted	3

Strengths of Selected Bidder	REDACTED was the highest scoring bidder following the submission evaluation. REDACTED combined score (both Quality and Commercial) was 89.6%, the other bidders were 79.99 and 52.2% They demonstrated a good understanding of the requirement and their experience well aligns them for this engagement. The proposed approach is pragmatic and provided the evaluation panel with enough assurance that they could carry out this assessment in line with DCC's expectations. It was decided that REDACTED proposal would be the best option to meet Smart DCC's requirements and provide the best value for money overall.

	Initial Price	BAFO
Challenge by DCC	REDACTED	REDACTED

1.6.3 Engagement on Electric Vehicles (EV)

Driver for the Procurement

In response to Government consultations and request from BEIS, DfT and OZEV, DCC has been liaising with Government departments and other stakeholders for some time to explore and appraise the ways in which the DCC network, as an existing asset, has potential to assist in the future approaches to Electric Vehicle (EV) charging, particularly in the home and workplace settings where vehicles will remain plugged in for several hours and where features DCC could support, such as load control, will be most relevant.

This is a dynamic area of policy making. Both BEIS and DfT continue to review available options, and during the past year have identified the DCC network as the preferred option for supporting private EV smart charging. Net Zero is a core consideration as the Government and Ofgem seek the best methods to incentivise organisations such as the energy and distribution network companies to deliver decarbonisation at the appropriate rate and with proportionate costs for current and future consumers. The recent CMA report into electric vehicle charging is also highly likely to have a bearing upon the future decisions taken by Government. Should it be confirmed that DCC's network is to play a role, that would be an activity mandated by Government, and one in which the platform supports *all* entities providing EV smart charging, rather than seeking to introduce a discrete proposition of its own.

In the context of this dynamic policy development process by the Government, DCC needed to ensure that the scope, capabilities and potential contribution of the network were clearly and consistently communicated to decision-makers, stakeholders and other interested parties, so that the public benefits were understood and any misconceptions were clarified. For example, stakeholders for whom smart metering is not their core business may not previously have been aware that the DCC infrastructure could support their plans. DCC also needed to be ready to respond to consultations – both formal and informal – as they were issued by parties such as BEIS, OZEV and the CMA. The DCC has also responded to direct requests from Government Departments to present options for how the platform can deliver EV smart charging and wider load control objectives, the limitations and how these could be overcome.

Our customers are beginning to offer EV charging related tariffs to consumers. DCC needed to ensure our customers, including the DNOs, were aware of the ways in which the DCC platform could support and augment initial EV charging arrangements. It also needed to ensure that customers were clear on the DCC's potential future role of supporting *all* charging providers, and not setting up to compete with them (a common early misconception).

A procurement process was undertaken to secure a firm with expertise in supporting organisations to navigate changing policy environments and contribute helpfully to the development of policy options. The firm was sought to work alongside the DCC team to:

- Provide strategic advice on developing the DCC narrative, stakeholder approach, engagement strategy and plan and the creation of relevant explanatory content.
- Measure the results and outcomes of engagement activity.
- Advise on alignment between DCC's efforts to explain and communicate its potential future contribution, and the state of emergent policy in this new, technically complex field.

Securing Value for Money

Table 7: Procurement Evaluation Breakdown – Engagement on EVs

Procurement – Engagement on EVs		
Number of Bids received	4 from a framework of 4 suppliers	
Number of Bids shortlisted	All 4 were shortlisted	
Strengths of Selected Bidder	The winning bidder, REDACTED, demonstrated a clear understanding of the deliverables and provided a clear review of their approach and previous experience. They provided good insight with clear ideas on how to engage effectively and communicate the DCC's potential contribution to a wide range of interested parties.	
Challenge by DCC	**Initial Price**	**BAFO**
	REDACTED	REDACTED

To note, the spend in RY20/21 was immaterial: an internal accounting error has meant the full value of REDACTED was receipted in the year. Actual spend on REDACTED's work during this period was REDACTED

There is a forecast variance of £280k for RY21/22 as the scope of this work is subject to external factors such as Government consultations.

1.6.4   Customer Engagement Portal

This item has incurred less spend than expected in RY20/21. It is included in this Price Control submission to provide an explanation for the lower spend and the material variance that may occur in RY21/22 and RY22/23

As outlined in the 2019/20 Price Control submission, an existing contract with Cognizant was leveraged to provide the Minimum Viable Product (MVP) for the Customer Engagement Portal (CEP). The intention was to integrate the CEP with the Order Management System (OMS) creating a blended Customer Relationship Management (CRM) system hosted by REDACTED. The portal MVP was rolled out to 40 customers in the first instance in 2020 for them to use while we made plans for further development and rollout to all customers.

Through the course of RY20/21 it became apparent that this MVP of the portal would require significant investment to deliver the full functionality that customers required. A light-touch market testing exercise revealed similar or better outcomes could be achieved for lower cost than via REDACTED. Furthermore, the team managing the OMS process were exploring whether REDACTED would continue to provide the best platform for their service.

A decision was taken to pause the enhancement and rollout of the portal to our remaining customers, and to review the options. Customers were kept informed, consulted with and engaged in this process via a specific webinar (October 2020) and updates were provided at each Quarterly Finance Forum (June, September and December 2020, March 2021).

In March 2021, customers indicated at the Quarterly Finance Forum that their preferred option was Option 2: 'Conduct Request for Proposal (RFP) process and appoint best in class provider/solution'. A further update

was provided to the Quarterly Finance Forum in June 2021 outlining the engagement process that would be undertaken to involve customers in the scoping work for the Customer Engagement Portal tender process.

The forecast variance is caused by our estimated costs of what a newly procured service may deliver. We intend to procure the service in RY21/22 therefore the anticipated costs in that year are higher as the technology is commissioned and set up. The costs are currently forecast to then reduce in RY22/23 as the service enters live operation.

1.6.5 Price Control Support

Driver for the Procurement

The Price Control Support contract will be a regular requirement every year until the end of the Licence term unless the form of the submission changes significantly. The Economic Regulation team in DCC is intentionally small for the majority of the year and does not have the capacity to deliver this annual activity without additional support. Whilst we are able to leverage some support from other teams within DCC, our assessment is that it is more efficient to bring in expertise, including for aspects such as modelling, as part of a short, fixed-term contract once per year.

In RY20/21 we undertook an open tender process to commission a consultancy firm to provide support for the Economic Regulation team for the April-July 2020 period.

Securing Value for Money

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

- Drafting a detailed Request for Quote
- Interviewing potential suppliers
- Scoring their bids on quality and commercial grounds separately using an evaluation panel with experts across DCC
- Requesting a Best and Final Offer (BAFO) to secure the best discount possible
- Writing a contract award recommendation report and proceeding to contract award. Contract award is then reviewed and approved by the budget holder in accordance with DCC's Financial Approval Process.

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

Table 8: Procurement Evaluation Breakdown – Price Control Support Contract 2020 (RY19/20 PC)

Procurement – Price Control Support Contract 2020		
Number of Bids received	2 (6 were invited)	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	Strong regulatory knowledge, experience of Price Controls with other organisations, good use of technology in presentation giving confidence for delivering Price Control during Covid-19, previous experience working with DCC.	
Challenge by DCC	**Initial Price**	**BAFO**
	REDACTED	REDACTED

The final total cost of REDACTED noted in Table 3 was caused by two factors. First. an extension to the work of two core consultants from the middle until the end of July owing to additional work needing to be included in their contract. Second, there were two activities that could not be fully defined at the contract

award stage owing to the fact the financial year data had not yet been closed and processed. This work included:

- A significant update and overhaul of the benchmarking analysis DCC provides to Ofgem
- An analytical assurance review of the Baseline Margin Adjustment model to ensure that it was robust

All costs over the REDACTED BAFO were further negotiated prior to those aspects commencing, including a consideration of whether it would be possible to bring each item in-house for delivery by the DCC team.

The consultancy support ended on 31 July 2020 and no further support was required post-submission. This resulted in an overall significant decrease in the cost of providing Price Control-related activities this year relative to RY19/20. During the year the Economic Regulation team filled two vacancies, meaning further consultancy support was not needed. These team members supported the post-submission activities including Clarification Questions, Cost Visit and the Stakeholder Event in Summer/Autumn 2020.

Costs incurred in RY20/21 represented a significant reduction to the prior year. We are forecasting a further reduction for RY21/22.

1.6.6   REDACTED

Driver for the Procurement

REDACTED.

Securing Value for Money

A procurement was carried out in RY20/21 that yielded a contract that was below material variance. The initial findings from the piece of exploratory work have been positive, however, we expect further work to occur in this area to ensure the future solutions are scoped effectively. It was therefore agreed that £200k would be placed in the business plan in anticipation of that work. This decision was taken after forecasting processes had been complete and as such is currently shown as a variance. The work affects both operational delivery and the OPR reporting regime; as such in RY21/22 some of the REDACTED costs may be presented in the Operations Cost Centre.

1.6.7   Regulatory Advisory Services Consultancy

It was always the intention of Ofgem to review DCC's regulatory framework to ensure that it is fit for purpose and driving DCC to exhibit the right behaviours. Our customers have also frequently responded to Ofgem's Price Control consultations requesting that Ofgem consider alternative arrangements including a move to an ex-ante framework.

Given the lack of resources, specific skillsets and capacity within both DCC and Ofgem at the time of the review, it was decided that DCC would procure an organisation to research and suggest potential future frameworks on behalf of both organisations. It was also deemed preferable for an independent organisation to lead the review because of the:

- the strategic importance of designing the optimal framework;
- specialist skillset and breadth of knowledge required to undertake such a review and the lack of that available in the two involved organisations; and
- requirement for independent assurance of the recommended options.

Ofgem engaged fully with the process and attended workshops in order to ensure that the end-product was fit for purpose and was a useful input to their review of DCC's licencing arrangements which formally started in Q4 of RY2020/21.

The work was budgeted for and expected to occur in RY20/21 however as a contract had not been signed prior to the start of the year, the work was not included in the forecast owing to the Price Control certainty threshold.

Table 9: Procurement Evaluation Breakdown – Regulatory Advisory Services

Procurement – Regulatory Advisory Services	
Number of Bids received	7 bids from a framework of 11 suppliers
Number of Bids shortlisted	3
Strengths of Selected Bidder	The contract was initially awarded to REDACTED; however, contract negotiations broke down. The REDACTED proposal was the second highest-scoring bidder (there was a 1.48% difference in scores) in the procurement process. The team had a breadth of experience in regulated industries and had direct experience in designing regulatory regimes. Their proposed methodology for delivery was robust and allowed for input from DCC, Ofgem and leveraged the experience of their network of industry experts. The proposals documents were also shared with Ofgem, albeit with financials retracted to avoid a Price Control conflict, to ensure that the most appropriate bidder was selected.

Challenge by DCC	Initial Price	BAFO
	REDACTED	REDACTED

1.6.8   Innovation & Growth Strategy

In addition to delivering our core mandated programmes, DCC has tentatively explored additional use cases for DCC network reuse – focusing on products and services that provide enhancements to existing customers. We have listened to feedback from our customers and from Ofgem and decided to embark upon a more strategic approach to innovation-related work in RY20/21 and beyond.

There was one item of spend in this area that was just over the £150k threshold in RY20/21. The item was an Innovation & Growth Strategy at REDACTED. This was part of the £1m we agreed in principle with customers for the exploration of savings-generating reuse of DCC's network.

DCC entered into negotiations with REDACTED and achieved significant day rate reductions against other potential providers (average framework day rate for a Principal Consultant is REDACTED, and REDACTED for a Senior Consultant). See below table for negotiated consultant day rates for those who worked on this item and a comparator to other day rates available to DCC.

Table 10: Negotiated Day-Rate for Innovation Business Plan and Investment Case and comparators

Role	Capita Standard Day-Rate	Negotiated Rate after BAFO	Percentage Discount from standard day-rate to BAFO	Percentage Difference between BAFO and comparators
Principal Consultant	REDACTED per day	REDACTED per day	37.5%	46.8% lower

Role	Capita Standard Day-Rate	Negotiated Rate after BAFO	Percentage Discount from standard day-rate to BAFO	Percentage Difference between BAFO and comparators
Senior Consultant	REDACTED per day	REDACTED per day	20%	17.5% lower

The Innovation Business Plan and Investment Case work commenced in Spring 2020. The work was a 3-month piece providing additional capacity to the team, enabling the drafting of an actionable Business Plan and an Investment Case.

The output of the Business Plan and Investment Case work was first reported to the DCC Board in November 2020 and in an updated report in Spring 2021. Following feedback from the Board, customers, Ofgem and BEIS, DCC has put on hold its ambition of establishing a dedicated innovation and growth unit or innovating in other sectors. Instead, we will focus our efforts on new mandated business.

1.6.9   CMMI Reporting

Capability Maturity Model Integration (CMMI) is a process improvement methodology where processes are rated according to their maturity levels. DCC has identified that although we have key strengths in delivery of core requirements, our tools and processes may need some enhancement to effectively embed changes into our ways of working where needed. DCC has a keen focus on Business Accuracy in RY21/22. There is a forecast of £150k to support our work in this area as we may need to draw upon external expertise on occasion to support our internal teams with improving processes, particularly in financial forecasting for our customers.

1.6.10 Price Control Automation Tool (PCAT)

We have not spent a material amount on developing a Price Control Automation Tool (PCAT) in this year or prior regulatory years. We have paused the project while we assess whether we can use the additional functionality afforded to us from the Microsoft 365 licences we have procured as part of our Enterprise IT programme. We are working on how to develop additional functionality and improved efficiency in our analytical work for the Price Control by leveraging these licences.

II. Commercial– RY20/21 Variances Overview

Cost Centre Variance in RY20/21 by GL

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

Baseline (£m)			RY20/21	RY21/22	RY22/23
Total Commercial			**3.296**	**1.845**	**0.683**
Payroll costs	PR	£m	3.036	1.634	0.568
Non-payroll costs	NP	£m	0.093	0.096	0.015
Recruitment	RC	£m	0.022	-	-
External services	ES	£m	0.145	0.115	0.100
Internal services	IS	£m			
Incurred (£m)			**RY20/21**	**RY21/22**	**RY22/23**
Total Commercial			**5.112**	**5.371**	**5.834**
Payroll costs	PR	£m	3.911	5.082	5.727
Non-payroll costs	NP	£m	0.004	0.090	0.107
Recruitment	RC	£m	0.462	0.054	-
External services	ES	£m	0.734	0.145	-
Internal services	IS	£m	-	-	-
Variance (£m)			**RY20/21**	**RY21/22**	**RY22/23**
Total Commercial			**1.815**	**3.527**	**5.152**
Payroll costs	PR	£m	0.875	3.448	5.159
Non-payroll costs	NP	£m	- 0.089	- 0.006	0.093
Recruitment	RC	£m	0.440	0.054	-
External services	ES	£m	0.589	0.030	-0.100
Internal services	IS	£m	-	-	-

Commercial	RY20/21	RY21/22	RY22/23
Baseline (£m)	**3.036**	**1.634**	**0.568**
Commercial Operations	0.892	-	-
Legal	0.387	0.389	-
Procurement	0.816	0.809	0.132
Vendor Management	0.941	0.436	0.436
Incurred (£m)	**3.911**	**5.082**	**5.727**
Commercial Operations	1.530	1.471	1.960
Legal	0.017	-	-
Procurement	0.628	0.952	0.770
Vendor Management	1.736	2.659	2.997
Variance (£m)	**0.875**	**3.448**	**5.159**
Commercial Operations	0.638	1.471	1.960
Legal	(0.370)	(0.389)	-
Procurement	(0.189)	0.143	0.638
Vendor Management	0.795	2.223	2.560

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Corporate Management cost centre.

2 Comercial Cost Centre

2.1 Purpose, Scope and Structure

The Commercial function is responsible for the commercial management of DCCs strategic External Service Providers including contract and supplier relationship management, contractual frameworks and procurement of new service contracts. The function ensures that DCC receives value for money on the services procured and that service provider delivery supports the DCC and wider energy industry needs. The broad scope of the Commercial team is to:

- Undertake procurements and negotiate all contracts valued over £100k (Typical value £1m - £10m).
- Manage the Commercial and Procurement activity for our Major Programmes (SMETS1, Switching, ECOS and Network Evolution).
- Manage successful contractual relationships with DCC's strategic supply chain.
- Provide support to the business on procuring goods and services managing contracts and suppliers where the value is under £100k
- Meet the needs of Price Control to ensure appropriate cost controls in a highly regulated and heavily audited environment.
- Support New Value-Added Services and Product Development with Commercial and Procurement Support.

Previously governed and operated as a Finance and Commercial function, the Commercial function separated from the Finance and Legal functions to create three distinct DCC functions in 2020.

Key events and objectives driving activity and cost
The following outcomes were achieved through RY2020/21 which included a focus on improvements to efficiencies, resource flexibility, controls and decision making.

Automation and Continuous Improvements
Our existing tools and processes needed enhancement to quickly and effectively align to our ways of working and reporting. As a result:
- Improvements to the monthly supplier performance dashboard to capture value for money KPIs were successfully trialled with some strategic suppliers and go live April 2021.
- The lifecycle of the monthly supplier performance dashboards was also reduced, meaning the time to publish the report was reduced by 7 days to better inform key decision making across DCC.
- The team developed a Performance Recovery Plan process in collaborative with some strategic suppliers to drive improvement in supplier performance. This has proven successful through 2020 which has led to more collaborative working between DCC and its suppliers and will be integral in driving partnership ways of working in future.
- A review of procurement and contract management systems to inform further automation of sourcing and contract management activity in RY2021/22.

Commercial Operations
The DCC initiated a separation of the Commercial function from the Finance function which will be completed in RY2021/22.

The commercial function expanded largely in two areas:
- The contract management team from 10 to 18 FTEs to increase spans of control, increase the function's capability and enhance the effective management of DCC's 16 strategic suppliers and c40 complex high value contracts.

- The Supplier Relationship Management function increased from 4 to 6 FTEs in response to the fact that relationships were becoming more complex therefore more resource intensive to maintain effective performance management.

Major Programme

Network Evolution Programme (NEP) is a 5-year portfolio of programmes aligned to technical and commercial triggers and is the largest driver of additional resources although we plan to re-use resources where possible. There are 4 programmes inherent within Network Evolution as per the below:

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

NEP DSP sourced two studies to support the development of the Strategic Outline Business Case (SOBC) and programme options. The studies focused on the technology marketplace, innovation and high-level requirements. Customer engagement was initiated via the customers forums such as TABASC. The commercial workstream worked with the architects to undertake a review of the DSP Service components and establish an understanding of the corresponding IPR position.

2.1.1 Cost Centre Structure

The current Commercial team is strong with a track record of delivering core commercial requirements as well as influencing & supporting the DCC strategy. At the end of RY20/21, the cost centre's organisational structure is as outlined in Figure 1 and the scope of each team can be found in Table 1.

The Programme Procurement team was aligned to Procurement team in 2020 and now operate alongside corporate procurement team. In addition, following a review of the commercial operating model in 2019 a team of 5 set up a Commercial Office capability that underpins all other commercial sub teams and interlocks the function with the wider DCC to support in the delivery of key commercial outcomes. The Commercial Office capability currently sits within the Commercial Operations team for resource costs reporting purposes. From RY21/22 it is expected that Commercial Office will be established as a team in its own right.

Figure 1 – Cost centre organisational structure, showing the Commercial Office capability
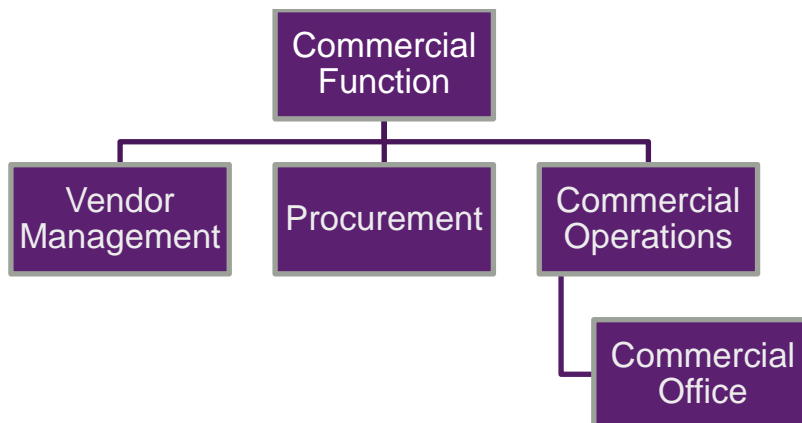
The table below provides the overview of the major structural changes to the cost centre during RY20/21 and a description of the teams within the structure.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Description
Commercial Operations	Commercial Operations	Accountable for: • Negotiate major contracts pertaining to the delivery of key DCC Services in line with the approved Procurement Policies, Strategy and Procedures. • Challenge and drive cost savings that represent value for money and which customers receive an appropriate level of information to justify expenditure. • Building and maintaining Programme relationships with DCC major programmes on behalf of Commercial, representing all commercial aspects where required and the negotiation of significant contracts into the DCC eco-system. • Manage the effective hand-over of such contracts to the business after a "bedding in" period of up to 12 months, however more typically 6 months after the date of contract signature. **Commercial Office** capability Accountable for: • Manages and controls commercial budget to ensure commercial outcomes are achieved and acts as the key interface between DCC People team & Finance • Creates data and insight for Commercial SMT and DCC Executive Committee to inform key decision making • Ensures a proactive, 'in-control' approach to scheduling commercial support for the wider DCC, interlocking plans and resource requirements and preparing for audits and ensuring the timely resolution of any audit findings. • Single point of accountability for cross-functional projects and improvement initiatives. • Ownership for the holistic identification, capture, mitigation, tracking and reporting of Commercial function risks.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Description
Programme Procurement		• Documents / map all Commercial processes, continuously reviews and redesigns using DCC CI standards
	Procurement	Accountable for: • Procure and re-procure goods and services valued over £100k on behalf of the DCC in line with the approved Procurement Policies, Strategy and Procedures. • Procure and Re-procure good and services in major programme (typical values £10m - £500m). • Provide support and assurance on DCCs procurement of goods and services and on contract and supplier management on activity valued over £10k and under £100k. • Ensure adoption of the DCC Procurement Policy and Procedures at all times throughout the organisation. • Develop and create frameworks to manage tenders, ensuring they are fair, transparent and legal for app participants so as to protect the DCC from challenge. • Procure, Negotiate, challenge and drive cost savings that represent value for money and which customers receive an appropriate level of information to justify expenditure. • Ensure DCC operates within the DCC Licence and Competition Law and support DCC Legal team to ensure effective contract terms and conditions are developed and implemented.
Vendor Management	Vendor Management	Accountable for: Supplier Relationship: • Managing Strategic Supplier Relationships (and where relevant other non-strategic suppliers) focussing on maintaining value and risk focus, driving supplier performance and resolving conflict.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Description
		• Designing and adhering to robust governance frameworks, identifying opportunity, managing risk and driving Value for Money (VfM). • Communicate DCC strategy and forward plans to align with supplier strategies, promote relationship / networking with strategic suppliers. • Act as the single escalation route for resolving issues. Contract Management: • Challenge and drive cost savings that represent value for money and which customers receive an appropriate level of information to justify expenditure. • Maintain value and risk focus through effective contract, commercial and supplier relationship management and act as the first point of contact for issues. • Liaise with the business to ensure appropriate contract change management processes are undertaken and supports a favourable commercial position. • The effective management of contractual mechanisms and commercial levers for DCC Strategic suppliers, liaison with the wider business to provide contract interpretation, guidance on contract related matters and ensuring contract change is managed.

2.2   Cost centre variances

Variance by GLs in the RIGs

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

Table 11: Variance from the RIGs by GL

				RY20/21	RY21/22	RY22/23
Total Baseline	Total Commercial		£m	3.296	1.845	0.683
Total Incurred	Total Commercial		£m	5.112	5.371	5.834
Variance	Total Commercial		£m	1.815	3.527	5.152

Payroll costs	PR	£m	0.875	3.448	5.159
Non-payroll costs	NP	£m	-0.089	-0.006	0.093
Recruitment	RC	£m	0.440	0.054	-
External services	ES	£m	0.589	0.030	-0.100

Payroll costs variance

The overall Payroll costs variance for RY20/21 is above the materiality threshold. The main drivers for this are disallowances on the Commercial Operations and Vendor Management sub-teams forecasts for RY20/21 in last year's Price Control decision. The RY20/21 incurred costs for the Commercial Operations team were slightly higher than our forecast last year, but well below the materiality threshold. Accounting for last year's disallowed forecast for the Vendor Management team, the overspend would have been around £265k. This spend reflects a change in approach for our FSPs where all contracts now have two dedicated contract managers because of the growing complexity of our supply chain.

Variance by Sub-Team

In RY20/21, the overall Payroll Variance is positive by £0.875m. This is accounted for by a £0.638m variance in the Commercial Operations team and a £0.795m in the Vendor Management team. In RY21/22, the same teams are showing material variances. In the forecast, all teams show a material variance in the final year because there is no agreed baseline. Legal has no entry for RY22/23 because it has moved to the Finance cost centre. We explain all material variances below.

Table 12: Variance by sub-team

Finance Payroll Costs	RY20/21	RY21/22	RY22/23
Variance	**0.875**	**3.448**	**5.159**
Commercial Operations	0.638	1.471	1.960
Legal	(0.370)	(0.389)	-
Procurement	(0.189)	0.143	0.638
Vendor Management	0.795	2.223	2.560

2.3 Drivers for Variance – Resource

2.3.1 Commercial Operations

The Commercial Operations team is responsible for the negotiation of major contracts pertaining to the delivery of key DCC services, challenge and drive cost savings, build and maintain programme relationships, manage the effective handover of contracts to the business and support wider DCC commercial activities.

Commercial Operations is also responsible for managing and controlling the commercial budget, creating data insights for Commercial SMT and DCC Executive Committee, documents and maps all Commercial processes, takes ownership of managing and reporting the commercial function risks, acts as a single point of accountability for cross-functional projects and improvement initiatives.

Activities driving change in resource in RY20/21

The Commercial Operations team increased from 10.37FTE to 13.02FTE staff in RY20/21 in order to expand skills and capability to manage the multiple complex contract negotiations and develop the OBC and FBC in line with HMT's green book 5 case model in the Network Evolution Programme.

In RY19/20 we forecast that we would spend £1.368m on the Commercial Operations team in RY20/21. We have actually spent £1.530m in RY20/21. Last year Ofgem disallowed £0.435m from our RY20/21 forecast for this sub-team. If this is added back into the baseline, the difference in expenditure would be a little over £0.2m rather than the £0.638m in the table above.

Activities driving change in resource in RY21/22 and RY22/23

We set out the increase in headcount and their activities in the FTE tables accompanying this submission. There is actually a slight reduction in year-on-year FTE numbers between the incurred in RY20/21 and the forecast for RY21/22, as well as a significant reduction in forecast salary. This is largely because of a gap between when members of the Commercial team left DCC and new colleagues joining to replace them.

Last year, Ofgem disallowed the full value of £1.259m of our RY21/22 forecast for Commercial Operations. If this is added back into the baseline the variance would be £0.2m.

As always, there is no baseline for the final year of the Price Control aside from legacy roles. Because of this, the total forecast costs show as a variance.

The adoption of the NAO Framework for Commercial and Contract Management will drive bringing in new and the upskilling of existing commercial staff in future years. Of course, as we stated in our consultation responses to Ofgem's review of the Operational Performance Regime (OPR), we will do all we can to ensure that we make best use of existing resources and minimise the need for future roles. But it should be recognised that incentivising a change to DCC's commercial practices logically involves additional activities and resources.

2.3.2   Legal

Activities driving change in resource in RY20/21

The Legal team was transferred from the Commercial function to the Finance function during the year. As a result, there is an underspend on the team's resources in Commercial, and a material variance in Finance. This is discussed in more detail in the narrative for the Finance cost centre.

2.3.3   Vendor Management

In RY20/21, the increase in Vendor Management skills and capabilities to meet the expansion of the supply chain has been successfully embedded as contracts are signed in DCCs Major Programme and are handed over to the business. The Commercial function's increased resource demand for RY2021/22 and RY2022/23 is anticipated due to:

- Successful delivery of a full suite of Network Evolution contracts in RY20201/22 including DSP and Comms Hubs & Networks (CH&N) and the effective operational management of the contract and successful suppliers.
- Contract exit of the DSP requires new capabilities in the function.
- Successful adoption of best practices across the function in line with the NAO (National Audit Office) Framework and DCCs licence throughout RY2021/22 and RY 2022/23.

Activities driving change in resource in RY20/21

Through 2020/21 the portfolio of strategic suppliers has stabilised. Contract management spans of control are now more in line with industry best practice as the ratio of contract managers to contract reflects the value/complexity of the contract i.e. all FSP contracts now have 2 Contract Managers assigned. The team have documented key processes in order to identify efficiencies and maintain best practices as well as provided contract awareness training to the wider DCC business to ensure contract compliance.

A similar strategy has been applied to Supplier Relationship Management based on the strategic reliance DCC has on some supplier's and will be looking to expand our focus in this area to drive added value for DCC customers.

The team's expansion has strengthened DCCs ability to effectively manage the high volume of contract change volumes which has steadily increased year on year and support in the delivery of c£15m cost savings to DCCs customers.

Last year, Ofgem disallowed £0.655m from our forecast for RY20/21. If this amount is added back into the baseline, the variance in the Vendor Operations team would be immaterial at around £140k. Vendor

Management is an area that will require significant ongoing investment as our supply chain becomes larger and more complex.

Activities driving change in resource in RY21/22 and RY22/23

The Network Evolution Programme will generate a volume of contract change and contract and supplier management demand once the contracts have been signed. The function will re-use staff wherever possible.

New contract exit capabilities will be required during RY2021/22 and RY2022/23 to build the DCCs knowledge and processes around termination and transition in line with the NAO framework and to further support DCCs strategy.

- Greater volume of SEC Mod change as well as changes to the requirements on DCC as a result of such modifications.
- The vendor management team must continue to demonstrate value for money and the application of the themes and principles of government (Cabinet Office) commercial best practices.
- The review of DCCs strategic contracts will continue into RY21/22 to identify whether there is scope for DCC to pursue greater value for money. through negotiating new pricing and incentivisation methodologies.

Last year, Ofgem disallowed £1.060m from DCC's forecast for RY21/22. If this is added back into the baseline, this significantly reduces the variance. However, because RY21/22 was the final year of the forecast in the RY19/20 submission, the baseline for the Vendor Operations team was £0.474m, against our forecast for that year of £1.534m.

The driver of these costs is broadly full year costs in RY 21/22 for 4.75FTEs already working for DCC for part of the year in RY20/21, and the forecast addition of 5.25FTEs (vacancies) in RY21/22.

2.4 Drivers for Variance – Non-Resource

2.4.1 Summary

During RY20/21, there was one procurement within Commercial that had material variance, (i.e. over £0.15million). The breakdown is provided below.

Table 13: Material Variance

	Incurred (£m)	RY20/21	RY21/22	RY22/23	
	Total Incurred Payroll	3.911	5.082	5.727	
	Total Incurred Non-payroll	0.004	0.090	0.107	
	Total Incurred Recruitment	0.462	0.054	-	
	Total Incurred External Services	0.734	0.145	-	
	Variance (£m)	**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance Payroll	0.875	3.448	5.159	
	Total Variance Non-payroll	-0.089	-0.006	0.093	
	Total Variance Recruitment	0.440	0.054	-	
	Total Variance External Services	0.589	0.030	-0.100	
GL	**Variance £m**	**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**
RC	Recruitment	0.440	0.054	-	REDACTED

ES	Resource (contractor)	0.188	-	-	REDACTED
ES	Commercial Operating Model Services	0.362	-	-	REDACTED

2.4.2   Recruitment

Driver for the Procurement

The RC item above shows a material variance of £0.44m. This GL code includes both resource and non-resource items across the cost centre. All of the costs relate to the search and recruitment of permanent staff. It includes the recruitment fees for three ExCo members:

- Chief Financial Officer
- Chief Technology Officer
- Chief Commercial Officer

The RC item also includes the search and recruitment fees for the Head of Commercial Transformation, Head of Commercial Office Management, Senior Legal Counsel, Governance and Reporting Manager and a Senior PA. The Legal team was part of the Commercial cost centre and moved to the Finance cost centre in RY20/21, however, the recruitment costs of the legal team remain in this cost centre for accounting purposes.

Each of these recruitment activities was conducted in accordance with DCC's policies, with six separate providers.

2.4.3   Resource (contractor)

Driver for the Procurement

This item includes 30 individual data entries across a range of different activities, providing a range of consultancy services[1]. No individual contract was above the materiality threshold. The largest item of spend was in supporting the development of the Network Evolution procurement activities, including activities such as supporting the submission portal activities for prospective tenderers.

2.4.4   Commercial Operating Model Services

Driver for the Procurement

The background to this RFP is that in our FSP Contracts there is no meaningful method by which the DCC can instigate a Commercial Model which moves the commercial risk of delivery from the DCC to the Supplier. Three years of work with the CSPs on delivering a working Dual Band Comms Hub solution convinced us to review and develop alternative Commercial Operating Models to enhance our commercial leverage.

The DCC sought to partner with an organisation to assist us in changing the way we contract with our Fundamental Service Providers so that the balance of charges absorbed by the DCC moves from one based on Fixed or T&M Pricing, to one where the risk of delivery and the remuneration for that delivery is earned by the supplier upon the successful completion of that work.

As this was an important piece of work in resetting the commercial relationship with our FSPs, we launched a RFP process to 7 suppliers. We received bids from 2 companies, REDACTED and REDACTED. The table below summarises our procurement decision and outcome.

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[1] The title Resource (contractor) is used for internal data purposes.

Table 14: Procurement Evaluation Breakdown – Commercial Operating Model Services

Procurement – Commercial Operating Model Services		
Number of Bids received	2 bids from 7 invited suppliers	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	The reason for the award was that following a compliant and rigorous tender the recommendation represents the best value for money. REDACTED and REDACTED bids were similar in quality but the cost of the former was significantly lower.	
Challenge by DCC	**Initial Price**	**BAFO**
	REDACTED	REDACTED

			RY20/21	RY21/22	RY22/23
IT Services	IT	£m	0.144	0.084	0.107
Office Sundry	OS	£m	0.100	0.003	-0.097

III.   Finance – RY20/21 Variances Overview

Cost Centre Variance by GL

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

Baseline (£m)			RY20/21	RY21/22	RY22/23
Total Finance			**5.045**	**4.618**	**1.637**
Payroll costs	PR	£m	4.368	4.008	1.276
Non-payroll costs	NP	£m	0.211	0.210	0.029
Recruitment	RC	£m	0.041	-	-
External services	ES	£m	0.402	0.377	0.086
Internal services	IS	£m	-	-	0.144
IT Services	IT	£m	0.023	0.023	-
Office Sundry	OS	£m	-	-	0.101
Incurred (£m)			**RY20/21**	**RY21/22**	**RY22/23**
Total Finance			**7.339**	**6.555**	**6.198**
Payroll costs	PR	£m	4.349	5.686	5.578
Non-payroll costs	NP	£m	0.461	0.170	0.174
Recruitment	RC	£m	0.216	0.186	-
External services	ES	£m	2.045	0.403	0.336
Internal services	IS	£m	-	-	-
IT Services	IT	£m	0.167	0.107	0.107
Office Sundry	OS	£m	0.100	0.003	0.003
Variance (£m)			**RY20/21**	**RY21/22**	**RY22/23**
Total Finance			**2.294**	**1.937**	**4.561**
Payroll costs	PR	£m	-0.020	1.678	4.302
Non-payroll costs	NP	£m	0.251	-0.040	0.145
Recruitment	RC	£m	0.176	0.186	-
External services	ES	£m	1.643	0.026	0.250
Internal services	IS	£m	-	-	-0.144

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Finance cost centre.

Finance Payroll Costs (£m)	RY20/21	RY21/22	RY22/23
Baseline	**4.368**	**4.008**	**1.276**
Commercial Finance	1.142	0.955	0.460
Finance Office	0.475	0.366	0.218
Finance Transformation	0.775	0.775	0.177
Financial Reporting	0.498	0.498	0.390
Legal	-	-	-
People team	1.433	1.368	0.030
Regulatory Finance and Pricing	0.045	0.045	-
Incurred	**4.349**	**5.686**	**5.578**
Commercial Finance	0.622	1.164	1.182
Finance Office	0.416	0.451	0.451
Finance Transformation	0.749	0.819	0.911
Financial Reporting	0.503	0.663	0.589
Legal	0.575	0.946	0.785
People team	1.333	1.314	1.287
Regulatory Finance and Pricing	0.151	0.330	0.374
Variance	**-0.020**	**1.678**	**4.302**
Commercial Finance	-0.519	0.209	0.722
Finance Office	-0.059	0.085	0.232
Finance Transformation	-0.027	0.043	0.734
Financial Reporting	0.004	0.165	0.199
Legal	0.575	0.946	0.785
People team	-0.100	-0.054	1.256
Regulatory Finance and Pricing	0.106	0.285	0.374

3 Finance Cost Centre

3.1 Purpose, Scope and Structure

The purpose of the finance function is to oversee and execute financial activity for DCC. The team is divided into the following key areas. Also, for regulatory reporting purposes, the People team which is responsible for aspects of Human Resources activity within DCC, is included within the return for the Finance RIGs cost centre.

1. Finance Office.
2. Financial Reporting.
3. Commercial Finance.
4. Finance Transformation and Business Operations.
5. Regulatory Finance and Pricing
6. People team

This year, due to a restructure, the Legal team now also reports into the Finance cost centre. There are no additional costs associated with this change, it is purely for reporting purposes.

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

Sub-team 19/20	Current Sub-team 20/21	Description
Finance Office	Finance Office	The finance office team comprises the Chief Finance Officer (CFO) and the team PA. The CFO is a member of the DCC Executive Committee and DCC Board
Financial Reporting	Financial Reporting	The Financial Reporting team is responsible for: • producing the statutory accounts • producing price control data • managing the annual audit • overseeing month end reporting • overseeing accounts payable and accounts receivable processes • managing the agreed upon procedures • financial reporting to the shareholder • billing (including management of credit cover) • cashflow and treasury management
Commercial Finance	Commercial Finance	The Commercial Finance team is responsible for: • producing and managing the financial plans and forecasts of the business • providing financial business partnering to the organisation • supporting stakeholder financial updates e.g. quarterly customer finance updates and ad hoc customer queries • managing and implementing cost control processes; and • month-end reporting

Sub-team 19/20	Current Sub-team 20/21	Description
Minor restructure. New sub-team taking over charging and Price Control reporting previously led by Financial Reporting and Commercial Finance	Regulatory Finance and Pricing	This team is responsible for: • setting DCC charges • preparing and publishing annual charging statements and indicative budget documents • developing the internal reporting systems to facilitate production of the above • producing the data for the Price Control Regulatory Instructions and Guidance templates and supporting the Price Control submission • managing and reporting against 'Explicit Charges Revenue'; and 'Other Costs', including margin, gainshare, disallowed costs, pass-through costs (Alt HAN Co & SECCo) and post-year adjustments • reviewing and applying the Charging Methodology (SEC Section K) and the DCC Licence Relevant Policy Objectives. Evidenced through Annual Statement of Review
Finance Transformation and Business Operations	Finance Transformation and Business Operations	The team is responsible for: • ensuring that the DCC reporting system (BPC) is maintained and modified as per the needs of the business and any regulatory requirements • introducing systems to automate finance processes • improving systems/processes to improve performance • estates management
People Team	People Team	The team is responsible for: • providing strategic and operational HR business partnering to ExCo and functional leadership teams to include efficient and effective organisation design and development • supporting the development and execution of DCC and functional people plans with a focus on driving colleague engagement and advocacy • defining capability requirements needed to ensure DCC delivers against its business priorities and ensuring leadership bench strength through effective succession planning • ensuring DCC attracts and acquires the talent and expertise required through effective talent acquisition and management • developing capability across DCC in the areas of core skills and leadership development, mandatory and compulsory learning • through effective reward management ensure an efficient yet competitive reward approach to attract and retain capability within the business

Sub-team 19/20	Current Sub-team 20/21	Description
Legal – in 19/20 this sat within the Commercial cost centre	Legal	The team is responsible for: • supporting the organisation with in-house Legal resource such as drafting or reviewing contracts • managing relationships with external law firms • supporting the business to mitigate risks and comply with laws, with the DCC Licence, the Smart Energy Code and the Retail Energy Code

Key events and objectives driving activity and cost

The main activities delivered in RY20/21 are:

- Delivering detailed cost forecasts and plans for internal cost control and charging statement purposes.

- Supporting the refinancing of key programme activity to create value for money for customers.

- Efficient and effective financial management and control of Smart DCC activity.

- Preparing DCC capability for new Completion of Mass Rollout charging period requirements e.g. receiving and processing 'Additional Registration Data' (SEC Section E5.1) for the application of non-domestic Fixed Charges.

- Supporting the delivery of quarterly Finance and Programme Customer Briefings, preceding each round of relevant finance publications.

- Reopening the Charging Statement in March 2021 to return underspend to customers before year-end.

- Training key People team personnel on a new Job evaluation tool so that Recruitment within DCC is focussed, proactive and high-quality.

- Launching DCC's first Apprenticeship programme and creating a roadmap of activities to establish a strategic workforce plan.

- Launching One DCC forum to focus on a more inclusive organisation, holding a calendar of key activities and a programme of continuous improvement across the year.

- Providing legal services across DCC, in particular in relation to the Network Evolution business case, new ECoS activities, contract negotiations, renegotiations, and extensions and broader regulatory legal advice.

3.1.1   Cost Centre Structure

As per the table above, there has been one minor restructure during the year: the creation of the Regulatory Finance and Pricing sub-team. This did not result in an increase in overall headcount, merely the team was created to ensure that charging and Price Control reporting were properly accounted for in DCC's organisational structure. The structure of the Finance and People cost centres at the end of reporting year 20/21 is as follows:

Figure 2 – Cost centre organisational structure
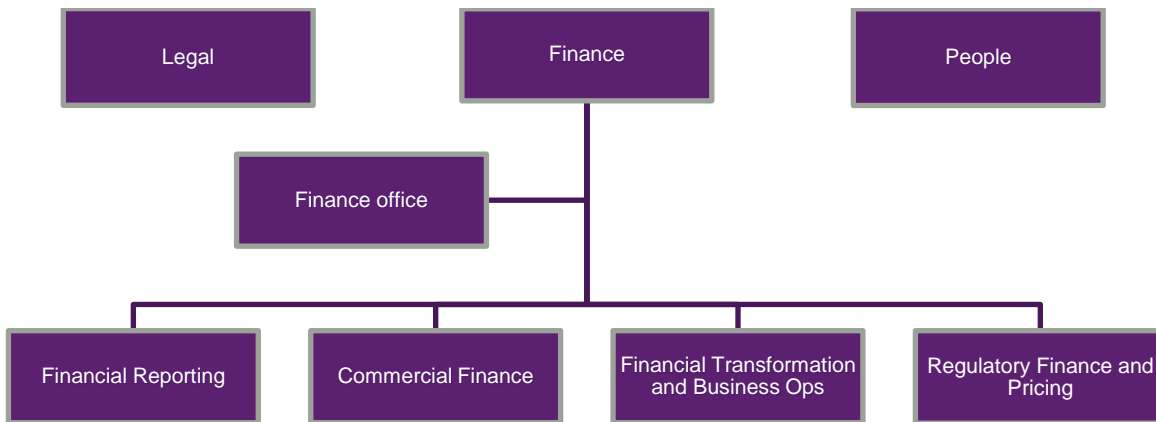
3.2   Cost centre variances

Variance by GLs in the RIGs

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

Table 15: Variance from the RIGs by GL

				RY20/21	RY21/22	RY22/23
Total Baseline	Total Finance		£m	5.045	4.618	1.637
Total Incurred	Total Finance		£m	7.339	6.555	6.198
Total Variance	Total Finance		£m	2.294	1.937	4.561
	Payroll costs	PR	£m	-0.020	1.678	4.302
	Non-payroll costs	NP	£m	0.251	-0.040	0.145
	Recruitment	RC	£m	0.176	0.186	-
	External services	ES	£m	1.643	0.026	0.250
	Internal services	IS	£m	-	-	-0.144
	IT Services	IT	£m	0.144	0.084	0.107
	Office Sundry	OS	£m	0.100	0.003	-0.097

Variance by Sub-Team

In RY20/21, the overall Payroll Variance is negative. Only the Legal team constitutes a material variance in the Finance cost centre, with the reason being that the team transferred from the Commercial function to sit under the Finance function. There is a corresponding reduction in the Commercial cost centre submission. In the forecast, all teams show a material variance in the final year simply because there is no, or a very limited, baseline in the final year. In RY21/22, the Commercial Finance, Financial Reporting, Legal and Regulatory Finance and Pricing teams are showing material variances. The reasons for this are set out below.

Table 16: Variance by sub-team

Finance Payroll Costs (£m)	RY20/21	RY21/22	RY22/23
Variance	**-0.020**	**1.678**	**4.302**
Commercial Finance	-0.519	0.209	0.722
Finance Office	-0.059	0.085	0.232
Finance Transformation	-0.027	0.043	0.734
Financial Reporting	0.004	0.165	0.199
Legal	0.575	0.946	0.785
People team	-0.100	-0.054	1.256
Regulatory Finance and Pricing	0.106	0.285	0.374

3.3 Drivers for Variance – Resource

All teams show a material variance in RY22/23 because the year was beyond last year's forecasting period and only a small number of roles across the DCC have an enduring baseline.

3.3.1 Commercial Finance

Activities driving change in resource in RY20/21

There were no material variances incurred this reporting year. Last year we were forecasting a headcount in RY20/21 for this team of 12.59FTE. We have had significant resourcing issues throughout the year, resulting in an incurred figure of 7.11FTE in RY20/21 and an underspend against the baseline of £0.52m.

Activities driving change in resource in RY21/22 and RY22/23

In the two outer years we are forecasting a return both to our long-term headcount levels of around 13FTE (13.17FTE and 13FTE for RY21/22 and RY22/23 respectively), and a planned payroll expenditure of just under £1.2m. We were forecasting this level of FTE and expenditure last year for these years and were not subject to forecast disallowances for this cost centre in last year's decision from Ofgem. However, the variance in RY22/23 is the result of an artificially low baseline because of the three-year reporting cycle.

3.3.2 Finance Office

There were no material variances in the Finance Office in RY20/21 or RY21/22.

Activities driving change in resource in RY22/23

Throughout the three years of the Price Control horizon, the resource costs of the Finance Office are stable at between £0.4m and £0.45m. The material variance in RY22/23 is because the enduring baseline is £0.218m.

3.3.3 Financial Reporting

Activities driving change in resource in RY20/21

There were no material variances incurred this reporting year. However, in the middle of March 2021, this team expanded by one FTE (a Finance Reporting Manager) to backfill an existing member of the team REDACTED.

Activities driving change in resource in RY21/22 and RY22/23

We are forecasting a material variance in payroll expenditure in RY21/22 of £0.165m. The reason for this is REDACTED

The variance in RY22/23 arises from the continuation of these roles and the lack of a baseline.

3.3.4 Finance Transformation

There were no material variances in the Finance Transformation team in RY20/21 or RY21/22.

Activities driving change in resource in RY22/23

Throughout the three years of the Price Control horizon, the resource costs of the Finance Transformation team are in the range of £0.75m to £0.91m. The material variance in RY22/23 is because the enduring baseline has fallen from £0.775m to £0.177m. If the RY22/23 baseline was the same as the prior year, there would not be a material variance.

3.3.5   Legal

Activities driving change in resource in RY20/21

The Legal team is showing a material variance of £0.575m in RY20/21 because it was moved from the Commercial cost centre to the Finance cost centre during the year. There is a broadly equivalent reduction in payroll costs in the Commercial cost centre as a result. Incurred costs of £0.575m are £0.216m above the forecast last year.

Last year the Legal team was comprised of three full time members of staff, supported by external legal advisors and DCC's Legal Panel. To reduce the total costs of providing legal services, to improve knowledge retention within DCC, and to manage the significant increase in input required on contract negotiations, we recruited additional permanent members of staff, increasing headcount from 3 permanent staff in RY19/20 to 6 by the end of RY20/21. This is still an extremely small Legal team given the size of the business and the circa £0.5bn of annual expenditure on contracts DCC manages. Because the demands on our lawyers will increase significantly over the next two years due to the award of additional government programmes and the expiration of FSP contracts, we are planning further increases in our internal capability.

Activities driving change in resource in RY21/22 and RY22/23

As set out in our FTE tables accompanying this submission, the Legal team is forecast to increase by three to a total of nine resources in RY21/22. In RY22/23 it will fall back to a total of eight.

As above, the Legal team advises DCC colleagues on relevant aspects of all material contract negotiations, as well as regulatory and compliance matters. In RY21/22, DCC Legal has been advising on the extension of the DSP contract – a hugely complex task, involving extensive input from the Head of Legal and Senior Legal Counsel. Other areas where the legal team has provided significant input include:

- Extension of the SMKI service
- Advising on the Network Evolution Comms Hub and Network procurement and contractual activities
- Activities to support improvements in CSP North performance

In RY22/23, although the team will decrease from a headcount of 9 to 8, there is no baseline and all expenditure appears as a variance.

3.3.6   People team

There were no material variances in the People team in RY20/21 or RY21/22.

Activities driving change in resource in RY22/23

Throughout the three years of the Price Control horizon, the resource costs of the People team are stable at around £1.3m. The material variance in RY22/23 is because the enduring baseline is £0.030m rather than the £1.3m that DCC is forecasting.

3.3.7   Regulatory Finance and Pricing

The Regulatory Finance and Pricing team was created in large part by moving team members from the Commercial Finance team. For clarity, there was a negative variance in payroll costs for the entire Finance cost centre during RY20/21 due to a number of unfilled vacancies.

Activities driving change in resource in RY20/21

There were no material variances during RY20/21.

Activities driving change in resource in RY21/22 and RY22/23

There is a material variance in the RY21/22 forecast because the team is planned to increase to four permanent members of staff, two of whom are new posts: one Regulatory Finance Manager; and one Cost Efficiency Manager (vacancy).

The creation of the new roles within the Regulatory Finance and Pricing team reflects a change in team responsibilities. Until 2019, the team was responsible for pricing and finance-related stakeholder engagement only. From 2020, they also took on responsibility for preparing the RIGS for the Price Control and providing support for potential mandated growth.

The Regulatory Finance Manager supports the Head of Regulatory Finance and Pricing on the analysis for the price control, primarily leading on:

- making monthly updates to the price control working files
- management and reporting of other costs
- proactively tracking over/under-recovery (so as to ensure customers are paid back over-recovered funds early)
- financial stakeholder management
- developing quarterly finance publications
- setting DCC charges for core services
- managing the pricing analyst

The Cost Efficiency Manager (vacancy) replaces a prior contractor resource, on the ground that we believe it represents better value for money for customers. The Cost Efficiency Manager supports the Head of Regulatory Finance and Pricing and is responsible for: setting and tracking against cost efficiency targets; reviewing, developing, and improving business cases; improving cost transparency with our external stakeholders; and improving internal process and ensuring best practice.

The variance in RY22/23 arises from the continuation of the permanent roles and the lack of a baseline.

3.4   Drivers for Variance – Non-Resource

3.4.1   Summary

During RY20/21, there were four areas of material variance within the Finance cost centre. The breakdown is provided below.

Table 17: Material variance by GL

GL	Incurred (£m)	RY20/21	RY21/22	RY22/23	
NP	Total Incurred Non-Payroll	0.461	0.170	0.174	
RC	Total Incurred Recruitment	0.216	0.186	-	
ES	Total Incurred External Services	2.045	0.403	0.336	
GL	**Variance (£m)**	**RY20/21**	**RY21/22**	**RY22/23**	
NP	Total Variance Non-Payroll	0.251	-0.040	0.145	
RC	Total Variance Recruitment	0.176	0.186	-	
ES	Total Variance External Services	1.643	0.026	0.250	
GL	**Variance (£m)**	**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**

NP	Training	0.174	-0.055	-	Multiple contracts
RC	Recruitment	0.176	0.186	-	Multiple contracts
ES	CH charging reconciliation project	-	-	0.244	REDACTED
ES	REDACTED	0.256	-	-	REDACTED
ES	People - health, safety and wellbeing	0.209	0.013	0.013	Multiple contracts
ES	Legal advice/support	0.150	-	-	REDACTED

3.4.2 Training

Driver for the Procurement

There is no single procurement in this area that exceeds the material variance threshold. This GL variance includes services from more than 20 providers, across a range of training activities, including:

- Continuous improvement
- Risk management
- Unconscious bias
- Public speaking
- Media
- Resilience
- Advanced writing
- Project management
- Conference and lecture attendance
- Professional qualifications and study support

As the activities are largely planned within-year, it is difficult to forecast with any certainty one year in advance what DCC will spend on training its staff. Although the baseline for this activity was around £55k, this reflects that only a small subset of these activities can be contracted significantly ahead of time. For example, forecasting colleagues' attendance at a Beasley lecture or Westminster Forum a year ahead is impractical. However, last year our incurred spend on this item was just under £160k, so year-on-year there has not been a material variance.

Our forecast for RY21/22 is based on the same principle as last year in that we do not include a provision unless it is more certain than not that we will spend money on an activity. We anticipate a similar level of expenditure in this GL category next year, with a potential increase arising from additional continuous improvement activity.

3.4.3 Recruitment

The Recruitment GL comprises of both resource and non-resource transactions for recruitment activities. Summed together, the GL is variant at £0.176m, but neither the resource nor non-resource aspects are variant. Total non-resource expenditure on Recruitment last year in the Finance cost centre was £89k. The remaining £127k is formed of resource transactions, principally permanent staff agency fees. DCC incurred a total of £0.216m in recruitment fees against a baseline of £0.041m. As the timing and rate of leavers and joiners in DCC is unpredictable, the Recruitment GL code typically has an extremely low baseline.

3.4.4 CH charging reconciliation project

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

This is a repeating transaction and has been previously justified to, and accepted as economic and efficient, by Ofgem. The benefits are that it ensures an additional four FTE are not required to manage the reconciliation process as volumes increase during mass roll-out. In addition, it ensures that the accuracy of charges levied on DCC Customers is maintained irrespective of the volumes of Communications Hubs that have been delivered, installed and returned during their lifecycle.

There is no material variance in RY20/21 or RY21/22. In the final year there is a material variance of £0.244m because there is no baseline for the project. The expenditure is on repeating monthly application, cloud support and maintenance costs. We anticipate that we will continue to need this service until the end of the Licence period.

3.4.5 REDACTED

3.4.6 People - health, safety and wellbeing

Driver for the Procurement

There are multiple procurements in this area, with the largest of which being for dedicated Safety, Health and Environmental (SHE) support for DCC colleagues. There is no individual procurement that exceeds the £150k threshold, but we are explaining the expenditure as the combined value of contracts awarded to one company for related activities exceeded the threshold.

In 2019, DCC carried out an assessment of the SHE risk landscape across the ecosystem to identify the allocation of accountability between DCC, Service Providers, customers and other stakeholders and to assess the appropriateness and effectiveness of existing SHE policy, mitigation processes and controls in response to risks for which DCC may be accountable.

The recommendations and findings of the risk assessment were reviewed and we decided to seek expert advice on how to develop them into actions and a detailed plan on next steps and future requirements for systems, processes and resources to manage all SHE requirements. Following a competitive procurement in which 6 providers were invited to submit a tender but only one did, we contracted with REDACTED to develop our plans. The scope of the original procurement in February 2020 was to define and establish:

- Roles and responsibilities for management of all SHE activities within DCC at strategic and operational levels
- Proposed position descriptions and competencies for all FTEs to manage future requirements
- Proposed accountabilities for SHE at strategic and operational levels
- Guidance on an appropriate SHE Management System for adoption across DCC
- Reporting/monitoring/meeting requirements to meet statutory requirements
- Processes for management and tracking of 3rd Party SHE risk
- Identify any other SHE risks not already highlighted in the Risk Assessment
- Training requirements for relevant roles and responsibilities

Following this competitive procurement, and having tested the market for such services, we followed this procurement with direct award of additional activities to REDACTED to act on its recommendations, while we moved to procure permanent resources, including a Head of SHE Policy.

3.4.7 Legal advice/support

Driver for the Procurement

Historically we have procured dedicated legal support from REDACTED on a contractor basis. However, we have amended our approach to utilising this specialist legal advice by making a change to the contractual arrangements. REDACTED has been appointed to our Panel of Law Firms, which gives us the ability to specify support assignments on a fixed price basis at extremely competitive rates compared to mainstream legal firms. REDACTED have provided services to DCC more cost effectively than other law firms on DCC's panel, at day rates of REDACTED + VAT. Recent market testing by DCC of comparator services shows

comparable day rates of REDACTED+ VAT (law firms) and REDACTED for Senior Associates (based on recent Network Evolution Procurement).

Although there is no single contractual procurement that amounts to a variance of more than £150k, we have included this narrative as the total work undertaken by REDACTED just breaches the £150k threshold.

IV. Operations – RY20/21 Variances Overview

Cost Centre Variance in RY20/21 by GL

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

Baseline (£m)		RY20/21	RY21/22	RY22/23
Total Operations		**25.770**	**18.864**	**3.256**
Payroll costs	PR	17.915	17.578	1.349
Non-payroll costs	NP	0.823	0.863	0.097
Recruitment	RC	0.150	-	-
External services	ES	1.774	0.242	-
Service management	SM	4.102	0.054	1.810
IT Services	IT	1.005	0.126	-
Incurred (£m)		**RY20/21**	**RY21/22**	**RY22/23**
Total Operations		**23.327**	**23.149**	**22.427**
Payroll costs	PR	15.942	17.205	16.442
Non-payroll costs	NP	0.000	0.676	0.761
Recruitment	RC	0.420	0.236	-
External services	ES	2.085	0.990	0.776
Service management	SM	2.902	2.666	2.666
IT Services	IT	1.977	1.375	1.782
Variance (£m)		**RY20/21**	**RY21/22**	**RY22/23**
Total Operations		**- 2.442**	**4.285**	**19.171**
Payroll costs	PR	- 1.973	- 0.374	15.093
Non-payroll costs	NP	- 0.823	- 0.188	0.663
Recruitment	RC	0.270	0.236	-
External services	ES	0.312	0.748	0.776
Service management	SM	- 1.200	2.612	0.856
IT Services	IT	0.972	1.249	1.782

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Operations cost centre.

Operations Payroll Costs	RY20/21	RY21/22	RY22/23
Baseline	**17.915**	**17.578**	**1.349**
Design and Test Services	5.330	5.123	0.063
Service Design and Transition	5.077	5.344	0.387
Service Management	1.488	1.372	0.477
Service Operations	3.031	2.804	0.169
Strategic Operations	0.995	0.927	0.253
Technical Ops	1.994	2.008	-
Incurred	**15.942**	**17.205**	**16.442**
Design and Test Services	5.421	6.823	5.597
Service Design and Transition	2.931	2.822	3.344
Service Management	1.821	1.658	1.679
Service Operations	3.177	3.227	3.290
Strategic Operations	0.832	0.795	0.795
Technical Ops	1.761	1.880	1.737
Variance	**-1.973**	**-0.374**	**15.093**
Design and Test Services	0.091	1.700	5.534
Service Design and Transition	-2.146	-2.522	2.957
Service Management	0.332	0.286	1.202
Service Operations	0.146	0.423	3.121
Strategic Operations	-0.163	-0.132	0.542
Technical Ops	-0.233	-0.128	1.737

4 Operations Cost Centre

4.1 Purpose, Scope and Structure

4.1.1 Purpose

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

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

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

Operations aims to do this by following some key principles:

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

4.1.2 Scope

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

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

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

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

Key events and objectives driving activity and cost

In RY19/20, there was an organisational restructure and Operations now has the focus and the necessary accountable resource to concentrate on operation of the core systems, qualified DCC users and in-life product changes on a broadly 0 to 2-year horizon.

Activity and costs are typically driven by our annual objectives. The main deliverables worked on over the course of RY20/21 included the delivery of the following function objectives:

Table 28: Operations priorities and objectives RY20/21

Key Priorities	Objectives
Improve how we engage with customers and stakeholders	a) Transparency around DCC's activities, costs and decision making b) Improved internal governance and policies c) Better tools and engagement channels that will improve our ability to engage
Support the successful smart meter roll-out	a) Operate and improve the live service b) SMETS1 enrolment and operation c) Technical Operations Centre and security capability d) Dual Band Communications Hub e) Customer service operations improvements f) Customer experience improvements
Enable the intelligent transformation of the energy system	a) Faster more reliable switching b) Half-hourly settlement programme c) Elective services (as requested by customers
Deliver change and enabling innovation	a) Improving how we deliver change b) Production proving and DCC test lab c) Ecosystem Management Framework d) Cost reduction

4.1.3 Cost Centre Structure

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

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

Therefore, DCC made changes to the organisation of the CTO, CDO and COO functions. The changes were designed to better align our teams with the priorities of the smart metering programme and of our customers. These changes were about ensuring enough headroom and focus, not underlying functional changes to CTO, COO and CDO.

Figure 3 below shows the cost centre structure from 1 April 2020. **Error! Reference source not found.** As an Operational team we have grown and evolved beyond recognition over the last 3 years, with significantly increased responsibilities:

- At the end of RY20/21 we have approximately 11 million SMETS2 meters – 3 years ago we had less than 1,000.

- Three years' ago, the SMETS1 programme didn't exist, but by the end of RY20/21 we had almost 3.9m meters enrolled onto DCC's systems.

- We have had significant Service Provider growth from 6 to 17 (270% increase).

Operations has grown both in size and capabilities from the introduction of new teams such as TOC, ELS and MCC and the bringing together of Technical Design and Testing Service Teams. As we look forward to 2022 and beyond, we have programmes that require a new, broader and deeper Operational approach:

- Network Evolution,

- Switching,

- Innovation – It is important that we look ahead and evolve our Target Operating Model to set ourselves up for success in readiness for these programmes landing.

Figure 3 – Cost centre organisational structure
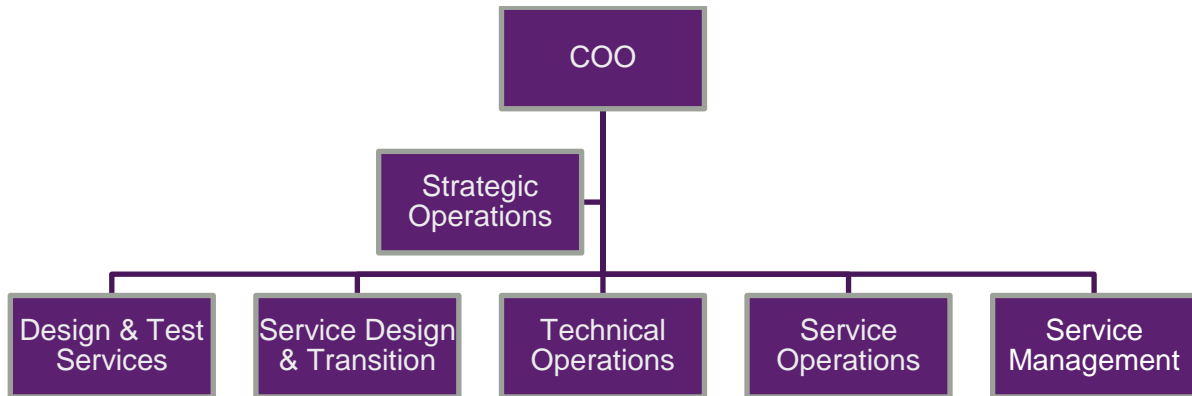
Figure 1 Cost Centre Structure and its capabilities are as follows. The table below provides the overview of the Operations cost centre during RY20/21 and a description of the teams within the structure.

Sub Team structure RY19/20	Sub-team RY20/21	Description
Technical Operations	Technical Operations	**TOC/SOC** ■ The Technical Operations Centre (TOC) function is to ensure that the service availability is managed through the monitoring and management from event managements. The overall function is to maintain optimal network operations across a variety of platforms, mediums and communication channels. This will also include the management of the Security Operations Centre (SOC) capability. Data Sciences and Analytics Technical Services
Service Design & Transition	Service Design & Transition	Service Design and Transition takes Programs into BAU including SMETS1 migration but also includes testing services and utilisation of the Brabazon House testing labs. ■ Service Transition (Transition Management, Release Management) ■ Service Design & Knowledge (Service Design and Knowledge, eLearning and Training) ■ Migration Control Centre (Forecasting and Planning, MCC Operations, MCC Reporting) ■ Early Life Support (Early Life Support, Production Proving) ■ Test Services (User integration testing, DCC test lab facility)
Service Operations	Service Operations	Service Operations delivers the service to our customers, managing the Incident and Problem team as well as logistics and capacity management. ■ Forecasting & Demand ■ Service Centre ■ Incident Management ■ Problem Management ■ Change Management ■ BC/DR

			Capacity Management Environments Management Release Management
Service Management	Service Management		Customer Service Management Customer Experience Supplier Service Delivery Management

Strategic Operations	Strategic Operations		Operating as the office of the COO, Strategic Operations assures inputs into the COO, ExCo and Board as well as Operations Strategy and Budgets.
			■ Operations Financial Management
			   • Management of overall Operations Budget
			   • Responsibility for driving cost savings across Operations
			   • Responsibility for Operations Price Control submission
			■ Risk Management
			■ Measurement and reporting
			■ Workforce Management
			■ Strategy Management

Design & Test Services	Design & Test Services		Design Services ■ Governance of the technical design authority for DCC enterprise and total systems, working with industry and service providers to address technical debt and deliver future capabilities and efficiencies. ■ Drive quality in solution design and design assurance of operating solutions and programme deliverables. ■ Assure service provider and DCC compliance with SEC and contractual requirements. ■ In life management and development of core DCC products - Communications Hubs and the SM WAN connectivity. ■ Subject matter expertise across all DCC technology domains, representing DCC in senior level engagement with industry, government and customers.

4.2 Cost Centre Variance

Variance by GLs in the RIGs

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

Table 19: Cost centre variance by GL

			RY20/21	RY21/22	RY21/22
Total Baseline - Operations		£m	**25.770**	**18.864**	**3.256**
Total Incurred - Operations		£m	**23.137**	**23.149**	**22.427**
Total Variance - Operations		£m	**-2.632**	**4.285**	**19.171**
Payroll costs	PR	£m	-1.973	- 0.374	15.093
Non-payroll costs	NP	£m	-0.823	- 0.188	0.663
Recruitment	RC	£m	0.270	0.236	-

External services	ES	£m	0.312	0.748	0.776
Service management	SM	£m	-1.390	2.612	0.856
IT Services	OS	£m	0.972	1.249	1.782

Payroll costs variance

The overall Payroll costs variance is negative in RY20/21 and RY21/22.

Variance by Sub-Team

In RY20/21, the overall Payroll Variance is negative. This is largely driven by the significantly lower than baseline costs incurred by the Service Design and Transition sub-team. This was due to several baselined vacancies that remained unfilled due to difficulties in finding the right people and many of the resources being deployed in SMETS1, NEP and Switching programmes. This reduced the incurred costs within the Operations cost-centre (as the costs moved to the programmes) while the baseline remained, creating a large negative variance.

Only the Service Management sub-team returned a material (greater than £150,000) variance in RY20/21. In RY21/22, the Design and Test Services, Service Management, Service Operations and Strategic Operations sub-teams are showing material variances. In the forecast, all teams show a material variance in the final year simply because there is no baseline agreed for the final year. Further details are provided below.

Table 20: Cost centre variance by sub-team

Operations Payroll Costs	RY20/21	RY21/22	RY22/23
Variance	**-1.973**	**-0.374**	**15.093**
Design and Test Services	0.091	1.700	5.534
Service Design and Transition	-2.146	-2.522	2.957
Service Management	0.332	0.286	1.202
Service Operations	0.146	0.423	3.121
Strategic Operations	-0.163	-0.132	0.542
Technical Ops	-0.233	-0.128	1.737

4.3 Drivers for Variance – Resource

4.3.1 Service Management

The Service Management team leads the engagement with DCC's customers and its service providers, improving customer service and enhancing the customer experience.

Activities driving change in resource in RY20/21

Communications and engagement between DCC and its Customers are becoming progressively more technical. As the number of meters connecting to the network increases, customers are encountering more technical aspects that require help and clarification. In addition, major programmes, such as SMETS1, drive the demand for technical customer engagement and customer experience staff.

Recognising this, it was important to maintain or increase the technical skillset with the Service Management team to ensure an effective service, and some contract roles were extended to cover gaps in permanent vacancy recruitment. For example, two contractors were brought in, and subsequently extended, to support SMETS1 and the Customer Effort Score (CES). The overall resource variance for this sub-team was 2.7 FTEs in RY20/21.

Activities driving change in resource in RY21/22 and RY22/23

The resource forecast for this sub-team decreases in RY21/22 relative to RY20/21, but we expect to continue to require much of this resource, including the Director of Service Management, Customer Experience Managers, Service Managers, and Customer Stakeholder and Engagement Manager, on an enduring basis.

The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

4.3.2 Design and Test Services

The Design and Test Services team is responsible for Design Services including governance of the technical design authority for DCC enterprise and total systems, assuring service provider and DCC compliance with SEC requirements and the development of core DCC products.

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

Within Design and Test Services, resources are typically allocated to specific programme and project activity and will expect to roll between activities on a structured and scheduled basis.

The incurred payroll costs for this team were below the materiality threshold in RY20/21.

Activities driving change in resource in RY21/22 and RY22/23

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

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

Specific activities:

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

There is an increase in forecast costs in RY21/22, largely due to the planned start of several new resources in currently vacant roles. These include four Data Scientists, five E2E Architects and two Solution Architects. These new roles contribute to an overall RY21/22 variance for the team of 11 FTEs.

The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

4.3.3 Service Operations

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

The incurred payroll costs for this team were below the materiality threshold in RY20/21.

Activities driving change in resource in RY21/22 and RY22/23

The current Operations organisational structure has been an effective enabler to secure clear accountability within the Operations team and enable operational growth. With the increasing demands on live service

operations and increases in scope, it is now necessary to refine the organisation to accommodate both the current and future requirements.

Following the restructure in RY19/20 whereby the capabilities in Technology Infrastructure moved to Service Operations, the scope for RY20/21 increased as detailed below and these resources have remained in the team for RY21/22.

- Demand & Logistics Management - 6 FTE transferred into Service Operations from Technology Infrastructure.

- Environments Management - 1 FTE transferred into Service Operations from Technology Infrastructure.

- Capacity and Performance Management - 3 FTE transferred into Service Operations from Technology Infrastructure.

- Release Management – 2 FTE transferred into Service Operations from Technology Infrastructure.

The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances

4.3.4   Strategic Operations

This team incorporates the office of the COO and provides Financial Management, Risk Management, Workforce Management and Strategy Management.

The incurred payroll costs for this team resulted in a negative variance in RY20/21.

Activities driving change in resource in RY21/22 and RY22/23

The resource forecast for this sub-team remains steady relative to RY20/21. We will continue to require this resource, including Chief Operating Officer, Head of Operational Business Planning, Operational Performance Analyst, Director of Strategic Operations and Operational Performance Manager on an enduring basis.

The resource forecast for this sub-team in RY22/23 is identical to the forecast in RY21/22, as we expect to continue to require this resource on an enduring basis. However, the variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

4.3.5   Service Design and Transition

This team is responsible for managing the transition from programme state to BAU, SMETS1 Migration Control Centre and Early Life Support. There were no material variances in RY20/21 or RY21/22.

Activities driving change in resource in RY22/23

The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

4.3.6   Technical Operations

This team provides the Technical Operations Centre (TOC) function and the Security Operations Centre (SOC) capability as well as various Data Sciences and Analytics and Technical Services. There were negative variances in RY20/21 or RY21/22.

Activities driving change in resource in RY22/23

The resource forecast for this sub-team remained relatively flat compared to RY20/21, but we expect to continue to require much of this resource, including the Head of Technical Security Operations Centre, Head of Technical Service Management, Director of Technical Operations and Technical Operations Analysts on an enduring basis.

The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

4.4 Drivers for Variance – Non-Resource

4.4.1 Summary

During RY20/21, there were four procurements within Operations that had material variance, (i.e. over £0.15million), two within external services and two within IT services. SOC Service and SOC Service IT are parts of the same overall procurement. There were no individual recruitment procurements with variance over £150K. The breakdown is provided below.

Table 21: Material variance for Operations non-resource internal costs

	Incurred (£m)	RY20/21	RY21/22	RY22/23	
	Total Incurred Recruitment	0.420	0.236	-	
	Total Incurred External Services	2.085	0.990	0.776	
	Total Incurred Service Management	2.712	2.666	2.666	
	Total Incurred IT Services	1.977	1.375	1.782	
	Variance (£m)	RY20/21	RY21/22	RY22/23	
	Total Variance Recruitment	0.270	0.236	-	
	Total Variance External Services	0.312	0.748	0.776	
	Total Variance Service Management	- 1.390	2.612	0.856	
	Total Variance IT Services	0.972	1.249	1.782	
GL	**Variance detail (£m)**	RY20/21	RY21/22	RY22/23	Procurement Type
RC	Recruitment Fees	0.303	-	-	Multiple
ES	EDAM	0.289	- 0.354	-	REDACTED
ES	SOC Service	0.190	-	-	REDACTED
SM	Service Desk	- 1.278	2.566	2.206	REDACTED
IT	SOC Service IT	0.183	-		REDACTED
IT	OMS – REDACTED	0.167	- 0.121	-	REDACTED

4.4.2 Recruitment

RY20/21

Within Recruitment the cost associated with Recruitment Fees currently shows up as a single material item with a variance of £303K.

However, it is not a single procurement but relates to the recruitment costs of five separate senior roles. Each of these activities has a separate PO number and none are individually materially variant. Details of the individual engagements are shown in the table below.

Table 22: Breakdown of RY20/21 incurred recruitment costs

Role title	PO number	Cost per PO number
Director of Architecture, Design and Test	REDACTED	REDACTED

Role title	PO number	Cost per PO number
Director of In-Life Capability	REDACTED	REDACTED
Director of Service Resilience	REDACTED	REDACTED
Director of Data & Software	REDACTED	REDACTED
Finance Director	REDACTED	REDACTED

RY21/22

In RY21/22 there is a forecast material variance of £236K for Recruitment costs.

These relate to the forecast costs for the recruitment of 25 permanent and contract vacancies across the Operations cost centre. These roles are due to start in RY21/22. None of these recruitment costs are individually materially variant. These vacancies are within five of the six sub-teams and distributed as below:

Table 26: Breakdown of RY21/22 forecast recruitment costs

Sub-team name	Number of vacancies in sub-teams	Forecast total recruitment cost per sub- team
Design and Test Services	10	REDACTED
Service Design and Transition	6	REDACTED
Service Management	2	REDACTED
Service Operations	5	REDACTED
Technical Ops	2	REDACTED

4.4.3   EDAM

Driver for the Procurement

This procurement was originally allowed by Ofgem in the Price Control for RY19/20.

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

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

DCC considered three options for establishing a new service agreement. DCC recommended that a replacement service agreement is established with Capita IT&N and this non-competitive procurement approach is supported by the DCC Procurement and Commercial Team. The indicative cost of the 2-year service agreement is approximately £2.68m which has already been budgeted.

Extension

The additional EDAM costs creating the variance were largely due to an extension of certain servers and support for 5-months until the end of RY20/21.

The Reporting and Monitoring (R&M) programme was delayed due to operational constraints that required an extension of the support arrangements for the EDAM service. This service that underpins all the regulatory and performance data for industry. Specifically, due to issues migrating to DCC's REDACTED cloud environment, there was a need to extend the contract with REDACTED where the current EDAM database resides.

This led to the extension of the support for the infrastructure (servers) and also the database application support team till the end of March 2021. It should be noted at this time that the R&M programme has been approved to be implemented. As such, a final extension of the database application support team is planned as a deliverable to facilitate support and knowledge transfer to any successful procurement bidders (although the incumbent may offer best value for our customers due to existing knowledge and skills developed.

Although this is an overspend against the EDAM line, it should be noted that this cost is coming out of the R&M programme budget line and is not an increase in overall costs.

Securing Value for Money

Sourcing Approach

This was a single source extension with REDACTED that followed the full and standard DCC Change Request process. This extension covered a 5-month period from November 2020 – March 2021, with early termination and replicating the existing contractual terms. There was no additional discount as it was within the extension sciope of the original contract.

Adherence to Change Process

This following the full and standard DCC Change Request process delivering the approved change authorisation note, REDACTED. The table below sets out the timescales for the change process for this CR.

Table 27: Change process for CR1454 - EDAM Servers - 5 Month Hosting / Support Extension

CR#	IA Fixed Price Cost	Date Raised	CR Sent to Supplier	DCC PA Approved	IA Received	DCC IA Approved	CAN Received Date	CAN Signed Date
CR1454	REDACTED	26/08/2020	09/09/2020	22/09/2020	14/10/2020	02/11/2020	03/11/2020	03/11/2020

4.4.4   SOC (Security Operations Centre) Service

This section describes the costs associated with the SOC in RY20/21. In the above non-resource summary:

- SOC Service IT - £183K – covers the initial implementation and set-up costs and,
- SOC Service - £190K - covers the first few months of running monthly charges.

Driver for the Procurement

As DCC grows as a business and expands its enterprise IT estate, it's critically important that appropriate security measures are in place to safeguard its staff and the confidential data that resides within.

Prior to the SOC Service, REDACTED was the solitary security monitoring capability that DCC had for its enterprise tooling. However, DCC carried out an audit which highlighted the inability of the existing security measures to prevent, detect and respond to and recover from an attack on their Enterprise IT systems

Because of this, it became essential for DCC to improve its security monitoring capability. DCC considered several options meeting this requirement (shown below) with the recommendation being to provision a seasoned supplier for a short-term period to provide the expert – 24/7 – monitoring capability required on DCC's enterprise estate. This is Option 2 in the table below.

	Headline	Time to Implement	Strategic Fit	Complexity	Any Other Factors	Cost
0	Do Nothing	Nil	Does not fit as EIT is segregated from REDACTED and we therefore cannot rely on REDACTED.	Nil	Fails to meet security objectives as REDACTED maturity in this area is sub-par Having the same firm run IT and monitor it, is not ideal.	Nil
1	Build our own SOC	High, 9 – 12 months	Limited fit as DCC's wider strategy is not to run technology ourselves. No Fit, installing applications in the Data Centre contradicts the Cloud Adoption Policy Technical Debt limited	Medium	We do not have the skills in house to build and to run a 24/7 security operations centre. Hiring and retaining those skills is extremely difficult.	Medium
2	Procure a managed service	Med, 6 – 9 months	Fits with wider strategy of outsourcing. Also separates security (oversight) from IT. Limited Tech Debt as the managed service will provide the latest technology.	Medium	Provides managed software and skills as a managed service.	Medium

Security Operations Centre:

The Security Operations Centre (SOC) provides the necessary visibility of threats and events that could turn into security incidents and the means by which DCC can gain details evidence in support of an incident investigation. This is line with the scale of an operation that is already managing over 10 million end points and expects risks of attack to increase as the service becomes a more visible target to malicious actors.

As outlined in last year's Price Control submission, in 2019 the DCC Board approved a threat-lead strategy for Security, including processes and triggers for any Security incidents. Security monitoring across the DCC estate is important to both the internal IT systems and customer "Motorway" systems run by Service Providers (SPs). It is a vital security control to ensure visibility of, and response to, any security incidents across the whole DCC ecosystem. It was identified that the numbers of Service Providers would more than double with the introduction of SMETS1 which would require well defined processes and triggers to automate responses, thus meeting the threat-led strategy. Security Operations received approval from the Board to put in place tooling and a service wrap to bring all security incident management into one place, visible from a central point ("single pane of glass") within the Technical Operations Centre.

The SOC service was initiated in this year with a Level 1 outsourced managed service provided by REDACTED after a competitive procurement process was completed as part of the Enterprise Security programme in April 2020. The costs were included in the previous budget, but not in the Price Control forecast as the contract had not been signed at the point this was set. The variance is caused primarily by the initial set-up costs for the service which will now be run costs going forwards. The initial costs covered configuration, the initiation of log collection and delivery and refining the SIEM rules. (This stands for Security Information Event Monitoring and is a fundamental tool to collate and correlate disparate security event logs to determine potential security threats and attacks. By nature, this tooling takes significant effort to refine so

that outputs are meaningful to effectively separate real indicators from background activity or false alarms.) There is a milestone plan for the set-up costs included below.

The service is broken down into firstly a frontline service that is outsourced to REDACTED which captures raw event log data and threat information to enable early visibility of anomalous activity with DCC systems. Then secondly this is backed up with DCC '2nd/3rd line' team who can analyse and investigate outputs to enable early prevention of or triage incidents. The latter works closely with the Service Centre and Major Incident Management team.

Both the REDACTED and internal components of the SOC are run as 24/7 services and will react to any potential threat to DCC and its services. This arrangement is being expanded to include Fundamental Service Providers such as REDACTED to achieve a holistic approach and cross-infrastructure view. To make this a very focused and effective service it is utilising the industry recognised leading MITRE ATT&CK framework to identify key threat vectors and attack paths along with likely scenarios. This focuses the key direction of the cyber threat mitigation to those which are most likely and pertinent to the DCC.

Securing Value for Money

The project has been through both an RFI and RFP processes, scrutinising the proposals to ensure best value for money. REDACTED (the chosen supplier) initial proposal bid came in £800k over our indicative budget of £1.3m; however, due to diligent negotiations from the programme the overall proposal was reduced to £147k over the original budget resulting in a >£600k cost-avoidance.

The difference between the Initial Price and the BAFO was achieved by refining the scope once contract negotiations commenced with the preferred bidder. The set-up costs decreased and the per annum costs increased resulting in the costs over the life of the contract being £600K lower. The primary drivers were:

- Additional clarification regards MPS (message per second) and the system performance required by DCC – the RFI response was based on up to 2,500 MPS, the RFP response based on up to 5,000 MPS. The system scale is built upon the MPS requirement, as such there is an associated increase in cost.

- Additional technologies and the requirement for high availability including End Point Detection Response (Carbon Black), Vulnerability Scanning (Tenable), Collaborative Working Environment – High Availability.

- Fulfilment of additional contractual obligations– DCC Specific Delivery Management and Maintenance of Smart DCC specific documentation, and operation of processes & procedures. Whilst all systems must be tailored to the service profile of the organisation, the DCC is unique in terms of its function and regulatory arrangements, so the settings of the system including processes and documentation was required to be custom-made during negotiations.

Sourcing Approach

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

Table 28: Procurement Evaluation Breakdown

Procurement – SOC Service	
Number of Initial Expressions of Interest	9 vendors expressed interest pre RFI, following the RFI, 6 were invited to RFP and all 6 expressed interest in bidding.
Number of Bids received	4 bids were received, from the 6 vendors invited to the RFP, with 2 late withdrawals.
Number of Bids shortlisted	2 – REDACTED
Strengths of Selected Bidder	1. REDACTED's score for the quality/technical criteria was 46.9% versus Accenture's 43.3% however this also excludes REDACTED's absolute commitment and conscientiousness throughout the tender process which at times was slightly lacking with REDACTED. 2. REDACTED's pricing score was 30% (the best score overall compared to all bidders) compared to REDACTED's post BAFO

	score of 17.11%. Their price was the closest to the DCC budget of REDACTED and REDACTED's pricing was approximately REDACTED more than REDACTED's 3 year like-for-like contract pricing. 3. REDACTED's legal score was 7.1% (they also had the best pre BAFO mark-up of all bidders) compared to REDACTED's 5.1% post BAFO so regardless of whether legal as a score per se is included in this post-BAFO stage or not is irrelevant to the total scores above. We do not expect any issues or showstoppers with REDACTED and legal terms & conditions costs have been optimised. 4. REDACTED have extensive experience in running similar services and gave confidence in their ability to perform the services and be both adaptable and flexible.	
Challenge by DCC	**Initial Price**	**BAFO**
	REDACTED	REDACTED

Contract management

The contract runs until April 2023. A milestone plan was negotiated for the set-up costs, with the following requirements to be met before each stage was paid for:

Milestone	Milestone Payment (Ex VAT)
Final Project Plan approved	REDACTED
Customer Implementation Plan completed	REDACTED
Platform build ready	REDACTED
Onboard, test & Service Transition complete	REDACTED
Total	REDACTED

4.4.5 OMS REDACTED

Driver for the Procurement

This original procurement was justified in the Price Control for RY19/20 and accepted by Ofgem.

OMS is DCC's strategic tool set for the forecasting, ordering, returning and tracking of assets. When operating at scale, it is estimated that there will be in the region of £1.5bn of assets in use. Presently, OMS is split into three instances, with one in the North and two covering South and Central. Operating these three instances generates several risks, which can be grouped into the following areas:

- Increased operational support costs with slow development & enhancement.

- Poor user experience through functional differences and multiple logins.

- Inefficient and manual processes for DCC and Service Providers that are unsustainable in the long term given the anticipated increase in the volume of assets managed by the OMS.

A supplier was procured via RFP to develop the new portal in 2019 and provide ongoing operational support for a 3-year period.

Annual Subscription

The total spend in RY20/21 on OMS REDACTED was REDACTED.

The majority of this, REDACTED, was the early payment of the annual subscription charge for the period 1 May 2021 – 30 April 2022.

This annual subscription is part of the previously approved spending and is therefore budgeted for and baselined. It is however baselined in RY21/22. By paying the subscription early, it has shown up as a positive variance in RY20/21 (where there was no baseline). However, there will be less cost incurred and a negative variance for OMS REDACTED in RY21/22 as a result.

4.4.6   Service Management

RY21/22 and RY22/23

In RY21/22 there is forecast material variance of £2.612m for Service Management non-resources costs. In RY22/23 there is forecast material variance of £0.856m for Service Management non-resources costs.

Incurred costs are static across the forecast years with the bulk coming from the enduring annual Service Desk costs.

However, in RY21/22, the overall variance is material due to a significantly lower baseline.

In RY22/23 and beyond there is an overall material variance. As the table below shows we are consistently forecasting annual expenditure in the SM GL of around £2.7m. The variance is because of the low baseline that reflects the historical assumptions around the scope of DCC's services. These have obviously expanded over the years as DCC has been asked to perform more functions on behalf of government.

Table 29: Details of material Service Management variances in RY21/22 and RY22/23

Forecast Year		RY20/21	RY21/22	RY22/23	RY23/24	RY24/25	RY25/26
Total SM Baseline	£m	4.102	0.054	1.810	1.810	1.810	0.754
Total SM Incurred	£m	2.902	2.666	2.666	2.666	2.663	2.663
Service Desk	£m	2.966	2.571	2.571	2.572	2.568	2.568
Total SM Variance	£m	-1.200	2.612	0.856	0.857	0.853	1.909

V. Design and Assurance (CTO) – RY20/21 Variances Overview

Cost Centre Variance by GL

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

Baseline (£m)		RY20/21	RY21/22	RY22/23
Total Design & Assurance		**1.778**	**1.599**	**1.587**
Payroll costs	PR	1.631	1.522	1.416
Non-payroll costs	NP	0.077	0.077	0.130
Recruitment	RC	0.070	-	-
External services	ES	-	-	0.027
Internal services	IS	-	-	0.015
Incurred (£m)		**RY20/21**	**RY21/22**	**RY22/23**
Total Design & Assurance		**2.159**	**3.709**	**4.517**
Payroll costs	PR	1.276	3.328	4.182
Non-payroll costs	NP	0.007	0.133	0.170
Recruitment	RC	0.005	0.179	-
External services	ES	0.870	0.069	0.166
Variance (£m)		**RY20/21**	**RY21/22**	**RY22/23**
Total Design & Assurance		**0.381**	**2.110**	**2.930**
Payroll costs	PR	-0.354	1.806	2.766
Non-payroll costs	NP	-0.070	0.055	0.040
Recruitment	RC	-0.065	0.179	-
External services	ES	0.870	0.069	0.139
Internal services	IS	-	-	-0.015

Cost Centre variance by sub-team

The table below shows the payroll variance by sub-team within the Design and Assurance (CTO) cost centre.

Design & Assurance Payroll Costs	RY20/21	RY21/22	RY22/23
Baseline	**1.631**	**1.522**	**1.416**
Business Architecture	0.327	0.358	-
CTO Office	0.453	0.339	0.432
Design	0.225	0.253	0.621
Products	-	-	-
Technology Innovation	0.346	0.346	0.147
Test Architecture	0.281	0.227	0.216
Incurred	**1.276**	**3.328**	**4.182**
Business Architecture	0.368	0.411	0.441
CTO Office	0.351	0.341	0.341
Design	-0.056	1.441	2.044
Products	0.334	0.491	0.491
Technology Innovation	0.342	0.346	0.346
Test Architecture	-0.062	0.298	0.518
Variance	**-0.354**	**1.806**	**2.766**
Business Architecture	0.041	0.053	0.441
CTO Office	-0.101	0.002	-0.091
Design	-0.281	1.189	1.424
Products	0.334	0.491	0.491
Technology Innovation	-0.004	-	0.199
Test Architecture	-0.343	0.071	0.302

5 Design and Assurance (CTO) Cost Centre

5.1 Purpose, Scope and Structure

5.1.1 Purpose

The Design and Assurance (CTO) function has developed significantly since RY19/20. During RY20/21, the previous CTO departed, an Interim CTO was in place for six months, and our new permanent CTO joined DCC in August 2020.

The new CTO has built on DCC's drive to improve knowledge sharing and better support Customers by consolidating, simplifying and improving core teams to set out a refreshed vision for the function.

The new vision aims to develop DCC as a digital spine for the Energy Industry. Central to the vision is the building up of system engineering capability to support the specification, design, delivery and technical strategy roadmap to manage DCC's connectivity and data services. The cost centre will engage and communicate with our Customers and Stakeholders to test and shape this vision, while ensuring that they manage the delivery of licence requirements for DCC and its Customers.

Following approval of this vision and strategy in March 2021, a further organisational restructure will take place in RY21/22. This brings together systems engineering, design and architecture capability from Operations and the Network Evolution Programme (NEP) cost centres into a single function. As part of a similar exercise DCC brought Test Architecture and Assurance experts together within one function with the Test Architecture Team transferring from the Design and Assurance function into Service Delivery. These changes align to wider DCC objectives to structure delivery excellence for our customers using a Design, Run, Operate, Support model, introducing various business accuracy management and monitoring measures in the forthcoming RY21/22.

5.1.2 Scope

The full range of activities undertaken over the course of RY20/21 are listed in the below. The priority focus for RY20/21 has been towards technical support to mobilise the NEP, alongside maturing technical design towards delivery of the Test Architecture Test Automation Framework. Additionally, the Technology Innovation team delivered the Interoperability Checker Service, alongside other innovation priorities and the Product Management team transferred into the CTO function during the year to strengthen proposition work to develop and overhaul Elective Communications Services to meet Customer needs. To note, the Test Architecture team transfers out of CTO and into Service Delivery on 1 June 2021 (RY21/22).

5.1.3 Design and Assurance (CTO) Cost Centre Structure

This cost centre has been restructured three times over three reporting years: During RY19/20, the architecture team transferred out to strengthen Operations. For RY20/21, most CTO staffing resource resided within the Network Evolution and Test Architecture teams. However, during the year, the Product Management team transferred into the CTO function. These changes are reflected in the organisation structure at the end of RY20/21, shown in the figure below. To note, a further restructure takes effect from June 2021, reflecting the refreshed CTO strategy and vision approved on 31 March 2021.

Figure 4 – Cost centre organisational structure March 2021
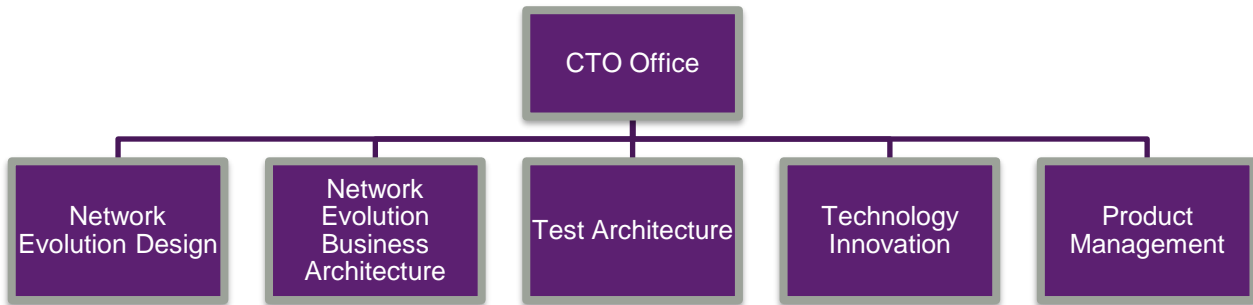
The table below provides the overview of the major structural changes to the CTO cost centre during RY20/21 and a description of the teams within the structure.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Comments / Description
CTO Office	CTO Office	Comprises the Chief Technology Officer and their PA
Network Evolution Design	Network Evolution Design	The Network Evolution design team is responsible for designing the Enterprise Architecture for the DSP re-procurement and Network Evolution comms hubs, as well as choosing network providers and working with DCC's Security Chief Information Security Officer (CISO) on the Network Evolution Smart Metering Key Infrastructure (SMKI) design. To note for the forthcoming RY 21/22, the Design and Business Architecture teams will be managed as one team, the Network Infrastructure and Evolution team, with sub-teams to support new NEP 'pillars' described in section 1.2.2 below.
Network Evolution Architecture	Network Evolution Business Architecture	The Network Evolution Business Architecture team is responsible for working with our customers on improvements to existing ways of working and how changes to process, coupled with Network Evolution technology can maximise the benefits to be delivered by the NEP. They engage with external such as the SEC Panel and also undertake Customer Engagement, including bilateral sessions to identify and understand opportunities to change ways of working. To note for the forthcoming RY21/22, the Network Evolution Design and Business Architecture teams will be managed as one team, the Network Infrastructure and Evolution team, with sub-teams to support new NEP 'pillars' described in section 1.2.2 below.
Test Architecture	Test Architecture	The Test Architecture team is responsible for reviewing existing test practices, technology and tooling and defining new ways of working aligned both to the existing systems estate, and as part of the NEP to incorporate technology that maximises both testing efficiency and quality of deliverables.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Comments / Description
		To note: Test Architecture will transfer out of this Design and Assurance (CTO) cost centre and into Service Delivery (Programme) cost centre with effect from 1st June 2021. (Forthcoming RY 21/22)
Technology Innovation	Technology Innovation	The Technology Innovation team is responsible for the design of technical solutions that address new SEC Modifications and Customer-led changes). It also provides support for Market-wide Half Hourly Settlement, Network Operators and Switching Programmes as appropriate. The Technology Innovation team works with the Product Management team to implement technical capability for propositions developed by the Product Management team.
	Product Management Moved to Design and Assurance (CTO) from the Strategy and Product Management business unit)	The Product Management team is responsible for ensuring DCC executes key services and operates to the standards required by our licence and customers. The team leads the coordinated development and delivery of DCC's products and services roadmap in line with customer requirements. This includes the Elective Communication Service process.

5.2   Cost Centre Variance

Variance by GLs in the RIGs

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

Table 30: Cost centre variance by GL

			RY20/21	RY21/22	RY22/23
Total Baseline - Design & Assurance			**1.778**	**1.599**	**1.587**
Total Incurred - Design & Assurance			**2.159**	**3.709**	**4.517**
Total Variance - Design & Assurance			**0.381**	**2.110**	**2.930**
Payroll costs	PR	£m	-0.354	1.806	2.766
Non-payroll costs	NP	£m	-0.070	0.055	0.040
Recruitment	RC	£m	-0.065	0.179	-
External services	ES	£m	0.870	0.069	0.139
Internal services	IS	£m	-	-	-0.015

Payroll costs variance

The overall Payroll costs variance is negative in RY 20/21, and materially variant in RY21/22 and RY22/23.

Variance by Sub-Team

In RY20/21, the overall Payroll Variance is negative. Only the Products team constitutes a material variance, as the forecast is disallowed for this sub-team, so all incurred costs appear as variance.

In RY21/22, the Design and Products teams are showing material variances.

In the forecast, all teams, except CTO Office, show a material variance in the final year.

The reasons for these variances are set out below.

Table 31: Cost centre variance by sub-team

Design & Assurance Payroll Costs	RY20/21	RY21/22	RY22/23
Variance	**-0.354**	**1.806**	**2.766**
Business Architecture	0.041	0.053	0.441
CTO Office	-0.101	0.002	-0.091
Design	-0.281	1.189	1.424
Products	0.334	0.491	0.491
Technology Innovation	-0.004	-	0.199
Test Architecture	-0.343	0.071	0.302

5.3   Drivers for Variance - Resource

5.3.1   Products

The Product Management team was set up in RY19/20 to ensure DCC executes key services and operates to the standards required by our licence and customers. The team leads the coordinated development and delivery of DCC's products and services roadmap in line with customer and government requirements.

The Product Management function is required to support organisational maturity and to ensure that customers are at the centre of any improvements for DCC's Products and Services. The improvements delivered to existing customers, and support for the smart meter deployment and other government policy have been the key focus in RY20/21. This has included the following activities, each accounting for approximately 25% of the team's workload:

- Elective Communications Services (ECS) Overhaul – the team provided some focus on improvements to the ECS process, engaging customers on what DCC could do to improve the process. The Product team has also completed market engagement to cost a new self-service ECS model. ECS currently has four customers signed up for pilots and leads on Customer Engagement.

- DCC Boxed – The Product team has supported the introduction of improved test tools (DCC Boxed), a service designed to reduce testing charges for our customers. It is working with Industry to establish market requirements and run a procurement exercise to deliver the capability. Positive responses to the DCC Boxed Customer Survey, March 2021, provide an evidenced benchmark, showing that this product development is delivering to Industry needs.

- Load Control – The Product team have provided support for load control and EV charging, supporting the participants for the BEIS-funded trials for the development of advanced load control solutions (HAN Connected Auxiliary Load Control Switch (HCALCS) and Stand Alone Proportional Controller (SAPC)) and additional projects looking at off street EV charging solutions, Virtual Power Plant solutions and other supporting projects and participants.

- Government priorities – The Product team have also supported BEIS & Government policy around the electrification of transport, heat, and energy efficiency in homes through DCC Network reuse. DCC has supported various government departments with EV Charging propositions and have also been engaged with Industry Specification work for Load Control.

Activities driving change in resource in RY20/21

The forecast is disallowed for this sub-team so all incurred costs appear as variance.

The Product Management team has retained the same headcount since RY19/20 but the function has moved from the Strategy and Product Management team to CTO during RY20/21. The team moved at the end of Quarter 1 so the costs incurred (and included in Design & Assurance (CTO)) in RY20/21 were for three quarters of the year only.

Activities driving change in resource in RY21/22 and RY22/23

There is an increase in incurred costs, and variance, between RY20/21 and RY21/22. There is no increase in team size, but the resources are present for the full year rather than the 75% of the year before, therefore increasing costs.

The key activities on future years will include the delivery of the overhauled ECS process for DCC customers, including supporting the required SEC Modifications and initial customer bilateral contracts. An emerging new requirement on system enhancements for DNO customers is being scoped and will include faster access to system data, including outage and restoration events. The Product team also expect to be supporting BEIS and OZEV with delivering government mandated priorities around EV Charging and other load control applications regarding the electrification of heat.

The resource forecast for RY22/23 remains the same as in RY21/22 as we continue the activity described above. As such, the variance remains the same.

5.3.2   Design

In RY20/21 the Design team incurred a negative payroll variance.

This Network Evolution Design team provides technical direction and expertise to facilitate the move to a future DCC that takes advantage of technical advances. Specifically it defines the technical solutions, platforms and methodologies that are needed to address the problems in delivering services. In addition, It ensures the integrity of the DCC solution architecture. It ensures that new functionality and changes to the architecture are fit for purpose and comply with the standards necessary to maintain a robust, consistent, and integrated technical infrastructure.

The NEP plans to deliver:

- Better value for money in the medium and long term for the smart metering programme and our customers,

- Improved in-life operational performance,

- Improving delivery of in-life change, giving lower costs, speedier change, and greater accuracy,

- Maintaining and improving the security of the network and services.

During RY20/21, NEP is no longer a single team, but has mobilised to deliver via four pillars, distinct sub-programmes, which will work together as appropriate on technical design deliverables:

- Comms Hubs & Networks (CH&N): 2020 -> 2023 - will deliver communications hubs and supporting infrastructure to de-risk technology obsolescence and ensure that the minimum 15-year operational asset life is realised,

- Data Service Provider (DSP): 2020 -> 2024 - will provide continuity of the DSP services to customers, with improved service performance and higher quality change capability,

- Trusted Service Provider (TSP) Security & SMKI: 2021 -> 2025 - a short-term re-platforming of the Smart Meter Key Infrastructure (SMKI) is required by 2022 and DCC will initiate a longer-term programme of work to support the evolving 2025 security needs,

- Network Evolution Test Automation: First implementation Spring 2022 - Designing and implementing automated testing of the SEC releases to achieve faster and lower-cost testing with additional enhancements to UIT Proving that will allow DCC to confirm the efficacy of changes.

This is a significant programme of work, requiring a considerable amount of technical expertise that touches on all elements of the core DCC communications and networks capability to provide smart metering services. For RY21/22, the Design and Assurance (CTO) Cost Centre will combine Design and Architecture teams to form the Network Infrastructure and Evolution team. This team will support the NEP to ensure that customers are obtaining the best technical solutions which always represent value for money, and which enable opportunities for competition, such that all service providers are continually subjected to competitive pressures.

Core technical elements to be addressed, shaped, and explored with Customers include:

- New Communications Hub and WAN connectivity approach,

- New Data Services Provider infrastructure, exploring new technologies, Cloud-based delivery and more modular architecture,

- Re-procurement and extension of the Smart Meter Key Infrastructure (SMKI) solution.

Activities driving change in resource in RY21/22 and RY22/23

For RY21/22 there are two main factors in the increase in forecast incurring costs.

Firstly, following BEIS's approval of DCC's business case, several new posts have been approved to support the significant programme of technical design. These are scheduled to join DCC during RY21/22. To note, these are not full FTEs for the year, as the anticipated start dates are phased throughout the year. Also, Test Architecture roles will transfer out of CTO with effect from June 2021 and the Lead App developer is intended to be allocated to the Technology Innovation team in September 2021.

Figure 5: Shows the plan for phased recruitment of resources for the forthcoming RY21/22. Purple shows enduring roles, pink shows contractor role, blue is fixed term 2-year contract roles.

May	Jun	Jul	Aug	Sep	Nov	Jan
Comms Hub SME	Senior E2E Architect	Comms Hub SME	System Integration Specialist	System Solution Specialist	Head of Network Economics	System Security Specialist
			Data Flow System Specialist	Test Assurance Architect	DNO Solution Architect	Cloud Solution Specialist
			System Solution Specialist	Test Assurance Architect		
			Cloud Solution Specialist	Test Assurance Architect		
				Lead App Developer		
				Modelling Analyst		
				DNO E2E Architect		

Secondly, increasing costs arise from existing staff including:

- Technical solutions lead only worked a part-year in RY20/21 but will be a full year in RY21/22.

- The CTO restructuring that took effect from 1st June 2021 referenced at 1.1.1 above, resulted in the return to Design & Assurance of three permanent staff previously shown under a different cost centre:
  - o Product SME
  - o Director of Network Evolution Architecture
  - o Comms Hub Solution Architect

These resources were previously baselined and expenditure incurred in the NEP cost centre.

The increasing costs (and variances) in RY22/23 are largely due to the increasing costs arising from the same resources working full years rather than part years, relative to RY21/22.

5.3.3 Business Architecture

During RY20/21, the Network Evolution Business Architecture team have been responsible for working with customers to identify improvements to existing ways of working and how changes to process coupled with Network Evolution technology can maximise the benefits of the programme. From RY21/22 onwards, as part of a restructure which takes effect from 1 June 2021, they are now a single CTO Network Infrastructure and Evolution team, supporting each of the newly formed NEP pillars described in 1.2.2 above.

Activities driving change in resource in RY22/23

There is no increase in headcount but a slight increase in resource costs (due to a resource working less on NEP and more in core CTO) between RY21/22 and RY22/23. However, the variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances.

5.3.4 Technology Innovation

The Technology Innovation team was created as a new team in October 2019. This team supports technical design for all new SEC Modifications (Customer-led change) and supports the technical design of relevant services DCC provides to customers. The Technology Innovation team was formed from existing DCC staff, one transfer from DCC SMETS 1 Programme, and one from the Design and Test Authority.

The course of RY20/21 included the successful delivery of:

1. SEC Modifications (Technical design): The team provided technical expertise to support the delivery of customer-led change via DCC Service Providers for the June and November 2020 SEC Releases. The team also undertakes technical review of SEC Modification proposals that are put forward for approvals monthly during any reporting year. When approved, these SEC Modifications are then scheduled for future SEC Releases. For example, SEC modifications approved as of March 2021, will be targeted for the SEC Release in November 2021, June 2022 and November 2022 at the time of writing.

2. Interoperability Checker Service (Phase 2): Following successful delivery of Phase 1 development (DCC-only capability) in July 2020, Phase 2 completed the necessary technical integration and service management capability (DCC and Citizens Advice) in December 2020. This delivered against provisions laid by BEIS in January 2020. The interoperability checker service is provided to Energy Consumers as a data API via the Citizens Advice website as the Smart Meter Checker and informs whether a meter enrolled with the DCC is SMETS 1 or SMETS 2, and if it is SMETS 1, will also provide information on which Energy Suppliers have indicated it is their policy to operate that particular meter type in Smart Mode, noting exceptions such as prepayment. BEIS approved live implementation on 12 May 2021.

3. DCC Boxed (SMETS 2): a testing tool in final test assurance stages at the end of March 2021. DCC Customers and BEIS supported the development of this tool during initial engagement, in March and April 2020. Due to constrained resources within the Technology Innovation team and the priority need to support the development of the Interoperability Checker, technical development of this as an internal DCC tool only was approved via DCC CDM governance. Engagement with Customers

recommenced in early 2021 to confirm interest in this as a product to be made available for Customers and their device manufacturers.

DCC Boxed is a useful tool to test how devices and Customer business processes will interact with DCC systems before use in the live production environment. This tool facilitates early development testing at relatively low cost. This increased testing capability enables early detection of defects. Addressing defects earlier reduces the chance of failure in live operations. This will enhance the quality of devices and Customer business processes once they are deployed in the production environment, which will benefit all Customers. As of June 2021, the Technical Innovation team completed a Customer Survey from March to May, and a SEC Modification is being raised by DCC to take this forward appropriately and in response to Customer feedback received in the survey.

4. Electric Vehicle Proof of Concept/Demonstrator: DCC liaised with BEIS to develop an Electric Vehicle proof of concept/demonstrator which supports the use of the DCC network for secure services. The proposition work was led via the CTO Product Management team, with technical design and delivery of the Proof of Concept/Demonstrator provided by the Director of Innovation from the Technology Innovation team. This is projected to be available in September 2021.

5. Elective Communications Service Overhaul: Led by the Product Management team, technical design for DCC Customer pilots is provided by the Director of Innovation. As of March 2021, some customer engagement has commenced which will increase over RY21/22, and subject to DCC CDM governance approvals, further DCC Customer engagement will follow with some early delivery of pilot capability to take place shortly thereafter. Further detail is available at 1.3.1 above.

Activities driving change in resource in RY22/23

The resource forecast for this sub-team is identical to the forecast in RY21/22, as we expect to continue to require the Technology Innovation Director and the Head of Assurance on an enduring basis. The variance increases significantly in RY22/23 as we continue the activity described above but compare it to a much lower baseline due to forecast disallowances. The new Lead App developer role described in section 1.2.2 is scheduled to join this team in September 2021.

5.3.5 Test Architecture

During RY20/21, the Test Architecture Team has provided critical expertise into the NEP to deliver the Test Approach Documents for the Comms Hubs & Networks, Data Service Provider, and developed and refined associated test scripts, and to assure prospective Suppliers design and delivery plans. This has been a substantial amount of work, over a short period as part of the NEP to incorporate technology that maximises both testing efficiency and quality of deliverables.

In parallel to support for future delivery of NEP, the Test Architecture team has supported the procurement and delivery of Test Automation capability that will allow the biannual SEC releases to be tested at higher speed, lower cost and with enhanced testing quality using new production proving capability which will enable DCC to confirm efficacy of changes more comprehensively before and as they are promoted to production.

The Test Architecture team transferred on 1st June 2021 to the Service Delivery cost centre, to bring all testing expertise together as part of the wider strategy within DCC to make structural changes to reduce silo working and to enhance business accuracy, referenced in the Purpose section at 1.1.1. The transfer of this team also reflects the fact that the strategy for Test Architecture has been established, and the first phase of Test Automation solution is now moving into the implementation or delivery phase, scheduled for Spring 2022.

Activities driving change in resource in RY22/23

The resource forecast (and variance) for this sub-team increases relative to RY21/22. For the same period, there is no increase in the baseline. The variance is due to the return to Design & Assurance of costs relating to two permanent Test Assurance Architects that had previously been baselined and incurred in the NEP.

For RY22/23, this Test Architecture sub-team will be reported against within the Service Delivery cost centre.

5.4 Drivers for Variance – Non-Resource

5.4.1 Summary

During RY20/21, there were two procurements within the Design & Assurance cost centre that had material variance (i.e. over £0.15million). Both procurements relate to the provision of bespoke technical device emulators required to support DCC testing of DCC Systems, and in turn Smart Metering devices, to ensure compliance with new requirements set out in the SEC November 2020 Release Technical Specifications.

The breakdown is provided below.

Table 32: Material variance for Design & Assurance non-resource internal costs

	Incurred (£m)	RY20/21	RY21/22	RY22/23	
	Total Incurred Recruitment	0.005	0.179	-	
	Total Incurred External Services	0.870	0.069	0.166	
	Variance (£m)	**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance Recruitment	-0.065	0.179	-	
	Total Variance External Services	0.870	0.069	0.139	
GL	**Variance (detail) (£m)**	**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**
RC	Recruitment	-0.065	0.179	-	Multiple transactions
ES	Nov'20 Emulator Development and Support (SLS Emulator Uplift)	0.173	0.069	0.166	REDACTED
ES	GFI Emulator Uplift for Nov '20 Release	0.174	-	-	REDACTED

5.4.2 November 2020 Release Emulator Support

Both of the procurements identified above were driven by the same circumstances. The overall drivers for procurement are described below. Then the individual procurements and the approaches to securing value for money are detailed in parts A and B. In both cases, value for money was provided by comparing costs with previous years, noting that this year emulation for a new device type had to be accomodated to comply with the new technical standards.

Driver for the Procurement

Device emulators are used in DCC integration testing environments to enable DCC to test their systems against the latest version of technical standards. Technical Standards are the Smart Meter Equipment Technical Standards (SMETS) and the Great Britain Companion Specification (GBCS). These Standards are applicable to both DCC systems and Smart Metering Equipment. Standards are baselined twice a year as part of development of the Smart Energy Code, although typically changes to device capability will only be made once per year. When this occurs, DCC's systems must be tested thoroughly to ensure they are operating in line with Technical Standards prior to these standards coming into force.

The use of device emulators is vital for DCC testing. Real meters, In-home Display units and Prepayment interface devices compliant with new forthcoming Technical Standards are rarely available in the marketplace until after a certain amount of DCC testing has completed. Therefore, device emulators are required in order for DCC to test that its implementation of the new standards will work as required with future devices that comply with these standards. This is an essential testing tool that saves significant disruption and costs to customers.

DCC requires device emulators to replicate the behaviour of Electricity Meters, Gas Meters, In-home displays, Pre-Payment interface Devices and HAN Connected Auxiliary Load Control Switches aligned to Technical Standards. Additionally, to support Industry to comply with Technical Standards, DCC provides the "GBCS Integration Testing for Industry" device emulators, known informally as GFI. GFI also has many features of the

SMETS standard, with some exceptions as it is a test tool product, not intended for use in the live operating environment.

These emulators need an update to their technical capability whenever the Technical Standards are amended to alter Smart Metering Devices behaviour for a new SEC Release. Typically, changes are made to enhance device behaviours to support interoperability of Smart Metering devices. Emulators need to be updated in advance to support the corresponding SEC Release to ensure testing by DCC before the SEC Release can be safely deployed in the live operating environment. Once DCC systems are proven to work as designed, and demonstrated as working as designed with GFI, GFI is made available without charge to DCC Customers and their chosen device manufacturers to support development of smart metering devices that comply with the latest Technical Standards. This expedites the testing that industry carry out to ensure Smart Metering devices can be tested in line with the same standard as DCC systems.

The November 2020 SEC Release included some amendments to support existing device interoperability and also introduced a new smart metering device, the Standalone Auxiliary Proportional Controller, known informally as SAPC. Therefore all emulators needed to be updated, and extended, to include 'new' SAPC emulator capability. The high level distinction between the SLS emulators and the GFI is that SLS emulators are designed to work in DCC Test Environments and GFI is designed for external Industry use.

A – Nov '20 Emulator Development and Support (SLS Emulator Uplift)

Securing Value for Money

A specific Supplier, REDACTED, has provided SLS emulator support for DCC, DCC Customers, and their nominated smart metering device manufacturers since 2016. It should be noted that no other company offers a comparable product, or could develop a comparable product in the short timescales generally required by the testing programme to respond to major SEC releases. Therefore, exceptionally, in order to update the existing SLS emulator, REDACTED was approved.

The Supplier has supported DCC in numerous regulatory releases in the past and has a track record of delivering related products and services within the time available and to required quality specification.

Further detail on the time constraints imposed by the SEC Release approvals process is set out immediately below. The Technical Standards were released by BEIS in January 2020. Once the scope of the 2020 SEC Release was known from BEIS then the following activities were undertaken:

- DCC drafted and internally agreed the scope of November 2020 testing for the device emulators,
- DCC passed the requirements to the Supplier for review and quotation in early March 2020,
- The Supplier impact-assessed the requirements and sought clarifications. Once clarifications had been addressed, they provided a quotation,
- The quotation provided by the Supplier was reviewed against the last release where emulators were developed to support, the November 2019 SEC Release. Quoted costs were found to be comparable and reasonable,
- DCC agreed the contract with the Supplier and issued a purchase order after which the Supplier began developing the uplifted SLS emulator, and completed the work as required to comply with new requirements for devices, and to ensure a successful November 2020 SEC Release.

Sourcing Approach

REDACTED quoted for the SLS Emulator Development, 3-month remote support period, with monthly releases, an optional quotation for a major stack uplift, and an impact assessment.

Table 33: Procurement process for PO #REDACTED

Purchase Order #	PO Fixed Price Cost	Requirements – Initial Draft	Requirements – Final Draft	Quote Received from Supplier	PO issued
REDACTED	REDACTED	04/03/2020	16/03/2020	13/04/2020	24/04/2020

B - GFI Emulator Uplift for Nov '20 Release / CR1326

Driver for the Procurement

The requirement was for GFI to support a new SMETS2 Standalone Auxiliary Proportional Controller as well is two functional uplifts to GFI.

These requirements reflected changes being introduced as part of the November 2020 SEC System Release. These changes arose from SEC Modifications approved through SEC Governance and as a result of direction from BEIS (Load Control). Without this, the November 2020 Release could not have been delivered and DCC would have been in breach of the SEC Release Management Policy.

The activity was completed via Change Request, CR1326, and is described as follows:

1. GFI development and delivery of the required GFI Emulator Uplift functionalities.

    a. HAN Persistence – This will allow GFI CH to be turned on and off persisting former HAN configuration. This will have a limited scope that will be refined in the Full Impact Assessment.

    b. Trust Centre swap out - This will allow the GFI CH dongle to be changed with another and restore the HAN for connected devices.

2. Development of the SAPC Zigbee Emulator.

    a. SAPC emulator according the requirements present on this change request – This will add to the GFI SAPC software emulator a Zigbee layer making it possible to be used with any SMIP Communications H including the GFI-CH.

3. Preparation and support for the Zigbee certification provided by the Zigbee Alliance, for the HCALC, HHT and SAPC Emulators.

    a. The current SAPC emulator as well as the emulators already used by DCC (HHT and HCALCS) will be Zigbee certified. REDACTED will prepare the required devices and submit to the Zigbee Alliance certification process.

Securing Value for Money

Sourcing Approach

This was a REDACTED procurement that followed the full and standard DCC Change Request process.

Adherence to Change Process

This followed the full and standard DCC Change Request process. The table below sets out the timescales for the change process for this CR.

Table 34: Change process for CR1326

CR#	IA Fixed Price Cost	Date Raised	CR Sent to Supplier	PA Received	DCC PA Approved	IA Received	DCC IA Approved	CAN Signed Date
CR1326	REDACTED	10/03/2020	18/03/2020	31/03/2020	20/04/2020	15/05/2020	27/05/2020	04/06/2020

Contract management

Payments were linked to key milestones achieved by the supplier.

1. On delivery of the GFI Emulator Up-Lift and SAPC Emulator.

2. On completion of the Zigbee certification of the HCALCS, HHT and SAPC Emulators.

5.4.3 Recruitment

In RY21/22, there is a forecast material variance of £179K for Recruitment costs. These relate to the forecast costs for the recruitment of four permanent vacancies, and thirteen fixed term contractors across the Design and Assurance cost centre. These roles are due to start in RY21/22. None of these recruitment costs are individually material.

Most of these roles are being recruited to work directly and wholly within two critical DCC programmes: NEP and DNO. Of the other five roles being recruited to work in the CTO function, two of them will be working closely with NEP to support the programme's procurements of key capabilities across CH&N, DSP, TSP, SMKI and Test Automation. In addition, the Lead Developer roles will be working closely with the DNO programme.

The vacancies are within three of the sub-teams and distributed as below:

Programme / function	Cost-centre sub-team	Job title
NEP	Design	Comms Hubs SME (RF and Hardware) NEP
		Comms Hub SME(Zigbee) NEP
		System Integration Specialist NEP
		Data Flow System Specialist NEP
		System Solution Specialist NEP
		System Solution Specialist NEP
		System Security Specialist NEP
		Cloud Solution Specialist NEP
	Test Architecture	Test Assurance Architect NEP (Fixed term 18 months)
		Test Assurance Architect NEP
DNO	Design	DNO Solution Architect (Director Level)
		DNO E2E Architect
CTO - NEP support	Design	Network Connectivity Economics Specialist Core CTO
		Modelling Analyst Core CTO
CTO	Business Architecture	Director of Software and Data
	Design	Lead Developer
		Cloud Solution Specialist Core CTO

VI. Security Cost Centre – RY20/21 Variances Overview

Cost Centre Variance in RY20/21 by GL

The table below provides a breakdown of incurred and forecasted costs in Price Control format i.e. mapping costs directly against the price control General Ledger codes (GLs)

Baseline (£m)			RY20/21	RY21/22	RY22/23
Total Security			2.032	1.623	0.846
Payroll costs	PR	£m	1.506	1.249	0.577
Non-payroll costs	NP	£m	0.055	0.055	0.069
Recruitment	RC	£m	0.021	-	-
External services	ES	£m	0.450	0.319	0.200
Incurred (£m)			RY20/21	RY21/22	RY22/23
Total Security			3.388	5.643	4.276
Payroll costs	PR	£m	2.323	4.214	3.588
Non-payroll costs	NP	£m	0.002	0.111	0.109
Recruitment	RC	£m	0.142	0.188	-
External services	ES	£m	0.856	1.098	0.544
IT Services	IT	£m	0.059	0.032	0.035
Office Sundry	OS	£m	0.007	-	-
Variance (£m)			RY20/21	RY21/22	RY22/23
Total Security			1.356	4.021	3.430
Payroll costs	PR	£m	0.816	2.965	3.011
Non-payroll costs	NP	£m	-0.053	0.056	0.041
Recruitment	RC	£m	0.121	0.188	-
External services	ES	£m	0.406	0.780	0.344
IT Services	IT	£m	0.059	0.032	0.035
Office Sundry	OS	£m	0.007	-	-

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Security cost centre.

Security Payroll Costs	RY20/21	RY21/22	RY22/23
Baseline	1.506	1.249	0.577
Business Resilience	-	-	0.043
CISO Office	0.460	0.460	0.125
Demand and Delivery	0.255	0.107	-
Enterprise IT	-	-	-
Security Business Partners	0.306	0.274	0.324
Security Governance Risk and Compliance	0.485	0.408	0.085
Incurred	2.323	4.214	3.588
CISO Office	0.447	0.460	0.460
Demand and Delivery	1.045	1.334	1.272
Enterprise IT	0.016	1.306	0.769
Security Business Partners	0.228	0.361	0.368
Security Governance Risk and Compliance	0.587	0.754	0.720
Variance	0.816	2.965	3.055
CISO Office	-0.013	-	0.335
Demand and Delivery	0.790	1.227	1.272
Enterprise IT	0.016	1.306	0.769
Security Business Partners	-0.079	0.087	0.044
Security Governance Risk and Compliance	0.103	0.345	0.635

6 Security Cost Centre

6.1 Purpose, Scope and Structure

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

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

Key events and objectives driving activity and cost

The main deliverables the Security function worked on throughout RY20/21 include:

- Providing and enhancing threat intelligence services
- Maintaining foundation security operating capability utilising the SOC
- Maintaining our ISO 27001 Certification in good order ahead of full re-certification in late 2021.
- Maintaining tScheme for SMETS2 and achieving tScheme certification for SMETS1 cohorts.
- Ensuring assurance processes continue to operate efficiently and effectively
- Maintaining policy and security controls with additional focus in information management
- Monitoring the improved process of new service onboarding
- Seeking opportunities and options to move DCC system to a stronger controls protecting against people and process based risks such as Ransomware attacks
- Continuing to improve the security culture within DCC.

6.2 Cost Centre Structure

Minor adjustments were made in the structure to refine the restructuring that was completed in RY19/20, some strengthening of the team was required with changes focus to support new programmes and business strategy.

- The Architecture Team is now separated from Demand and Delivery after DCC was able to onboard a Head of Security Architecture in December 2020.

- Security Business Partnering is now renamed Security Operations to better reflect their role and readiness to facilitate bringing operations liaison responsibility back into the function.

- Onboarding of a new lead for Information Governance and Data Protection was critical in RY20/21 to support the DCC becoming a Data Controller in the Faster Switching Programme and to support further improvements to data management within DCC.

- Work was completed on the Target Operating Model and final plans put in place to fully bring operation security back into the Security Function in RY21/22.

There were no significant changes to the overarching DCC Security team structure in RY20/21. As per the end of RY20/21, the cost centre's organisational structure is as follows:
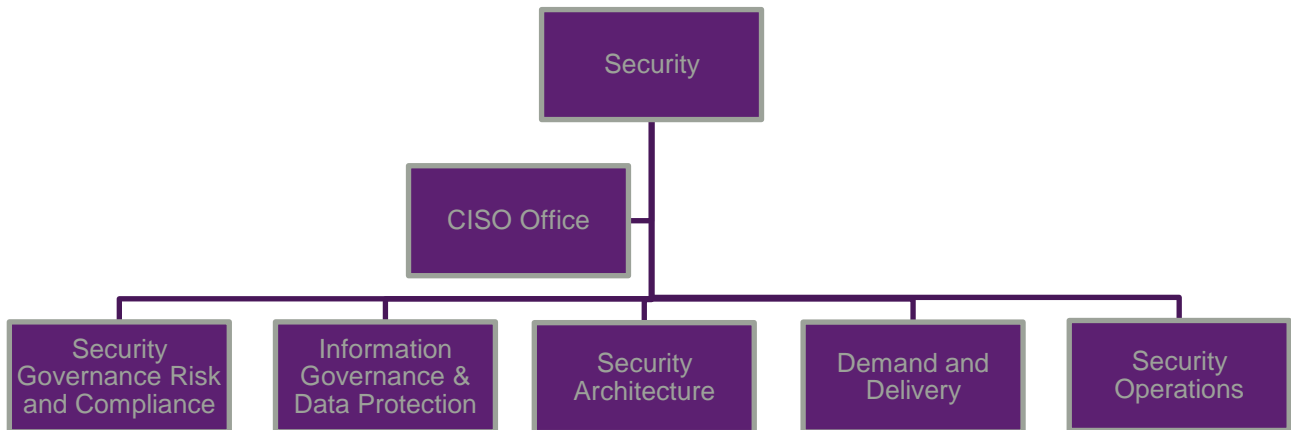
The team structure is set out in further detail in the table below.

Current Sub-team RY20/21	Sub Team structure reported in RY19/20	Description
No change	CISO Office	Consists of the CISO and Director of Security which oversee the strategic direction of the function whilst remaining accountable for delivery.
No change	Security Governance Risk and Compliance (GRC)	GRC ensures that DCC remains compliant with the latest Information Security policies, the regulatory codes and manages security risk. They work to train DCC colleagues and raise awareness of security culture.
Security Operations	Security Business Partners	Manages day-to-day Security operations and Service Provider liaison. Acts as focal point for incidents and threat intelligence.
Demand and Delivery	Demand and Delivery (including Security Architecture)	This team covers project and programme assurance along with architectural designs for secure operation and development.
Security Architecture	Was within Demand and Delivery	Separated now that DCC has a Head of Security Architecture. This is a critical function to set the technical blueprints for compliant architecture with a strong focus on Cloud solutions.
Information Governance and Data Protection	N/A	This team was created in RY20/21 to cover increasing Data Protection needs especially those when DCC goes live with the Faster, More Reliable Switching Programme. There are two roles, a Head of Information Governance and Data Protection and a Data Privacy Officer.

6.3 Cost Centre Variances

Variance by GLs in the RIGs

The table below shows variance by GL in the RIGs.

Table 35: Variance from the RIGs by GL

				RY20/21	RY21/22	RY22/23
Baseline	**Total Security**		£m	**2.032**	**1.623**	**0.846**
Incurred	**Total Security**		£m	**3.388**	**5.643**	**4.276**
Variance	**Total Security**		£m	**1.356**	**4.021**	**3.430**
	Payroll costs	PR	£m	**0.816**	**2.965**	**3.011**
	Non-payroll costs	NP	£m	-0.053	0.056	0.041
	Recruitment	RC	£m	0.121	**0.188**	-
	External services	ES	£m	**0.406**	**0.780**	**0.344**
	IT Services	IT	£m	0.059	0.032	0.035
	Office Sundry	OS	£m	0.007	-	-

Variance by Sub-Team

The table below shows variance in two teams, the Demand & Delivery and the Security Governance Risk and Compliance sub-teams. There is variance in future years in the CISO Office and the Enterprise IT team.

Table 36: Variance from the RIGs by sub-team

Security Payroll Costs		RY20/21	RY21/22	RY22/23
Variance	£m	0.816	2.965	3.055
CISO Office	£m	-0.013	-	**0.335**
Demand and Delivery	£m	**0.790**	**1.227**	**1.272**
Enterprise IT	£m	0.016	**1.306**	**0.769**
Security Business Partners (now known as Security Operations)	£m	-0.079	0.087	0.044
Security Governance Risk and Compliance	£m	0.103	**0.345**	**0.635**

6.4 Drivers for Variance – Resource

The tables below have been used to explain the roles, for full explanation of variances by Cost Centre and FTE, please see the FTE tables.

6.4.1 CISO Office

The CISO Office is showing a variance in RY22/23. The is no proposed change in the structure or composition of the team, it is the disallowance of future forecast that has generated this apparent variance.

6.4.2 Demand and Delivery

This team is primarily the security assurance function for projects and programmes and is driven by demand from the programmes and fulfilled by this team to ensure that procurement for and subsequent delivery of all DCC programmes are carried out with demonstrable security assurance and meet all of the DCC security and regulatory security requirements.

Activities driving change in resource in RY20/21

Increased programme activity and the Security Team requirement to respond to that activity have generated additional roles to be filled through predominantly contractor resources but some permanent roles to ensure continuity and knowledge within the core team. Specific activities and events are recorded below.

The extract below highlights some of the roles driving variance in RY20/21.

Role ID	Role Title	Variance 2020/21 (FTE proportion)	Rationale
REDACTED	Lead Security Architect	0.32	This role has existed and been required since the inception of DCC. However the last incumbent left in 2019 and it has taken 18 months to recruit a suitable candidate. Consequently, this will have fallen from the Q3 Charging Statement, but the role is in the plan and has been for several years. This is a key role to ensure DCC meets with demand from the industry and NCSC. With fast-paced changes in security and IT architecture there is a growing demand to meet with latest technology solutions that needs appropriate oversight.
REDACTED	Security Consultant	0.17	Providing technical security architecture SME to projects and programmes – specifically the Faster Switching programme.
REDACTED	Enterprise Security Architect	0.50	Providing enterprise level technical security architecture SME to projects and programmes – specifically the breaking out of DCC's IT network from Capita.
REDACTED	Project Assurance Security Specialist	0.49	Providing assurance to programmes that security controls & contractual requirements are in place in accordance with the Smart Energy Code, ISO27001 and other applicable standards. Including CRM, Qualtrics, CEP and OMS.
REDACTED	Project Assurance Security Specialist	0.06	Providing assurance to programmes that security controls & contractual requirements are in place in accordance with the Smart Energy Code, ISO27001 and other applicable standards – additional demand due to support required for the Enduring Change of Supplier programme (ECoS).
REDACTED	Senior Security Architect	0.17	Leading technical security architecture at portfolio level, providing SME to projects and programmes and ensuring strategy aligns with DCC's security vision. Supporting overrun of SMETS1 and early TSP engagement.
REDACTED	Project Assurance Security Specialist	0.25	Planned role to expand the capability to meet short notice demand from programmes and embed core DCC knowledge into the permanent team, assigned almost 100% to the Network Evolution Programme which is set to run for 2-3 years.

Activities driving change in resource in RY21/22 and RY22/23

The trend in the next two years sees significant activity in programmes such as Network Evolution, ECoS and Faster Switching along with major projected work with DNOs and supporting Market-wide Half Hourly Settlement (MHHS). We have planned resources in line with the DCC demand planning system (REDACTED).

The extract below highlights some of the roles driving variance in RY21/22 and RY22/23.

Role ID	Role Title	Variance 21/22 (FTE proportion)	Variance 22/23 (FTE proportion)	Rationale
REDACTED	Lead Security Architect	1.00	1.00	This role has existed and been required since the inception of DCC however the last incumbent left in 2019. However it has taken 18 months to recruit a suitable candidate. Consequently, this will have fallen from the Q3 Charging Statement, but the role is in the plan and has been for several years. This is a key role to ensure DCC meets with demand from the industry and NCSC. With fast-paced changes in security and IT architecture there is a growing demand to meet with latest technology solutions that needs appropriate oversight.
REDACTED	Security Architect	0.07	0.00	Providing technical security architecture SME to projects and programmes, this was overspill of the FOC programme to complete the Symmetric key PKI Certification Policy documentation to the satisfaction of the SEC and the tScheme auditor. (Contractor)
REDACTED	Enterprise Security Architect	0.75	1.00	Permanent replacement for role above to provide deep knowledge of PKI and crypto techniques to allow better compliance with SEC and REC requirements.
REDACTED	Project Assurance Security Specialist	0.49	0.00	Providing assurance to programmes that security controls and contractual requirements are in place in accordance with the Smart Energy Code, ISO27001 and other applicable standards. Including in-life change - SMETS1 ongoing support and NEP.
REDACTED	Project Assurance Security Specialist	1.00	0.09	Providing assurance to programmes that security controls & contractual requirements are in place in accordance with the Smart Energy Code, ISO27001 and other applicable standards – additional demand due to DSP extension and MHHS plus additional loading in 2022 due to NEP.
REDACTED	Security Architect	0.88	0.00	Additional cover to meet demand for support of the Faster Switching programme through the DBT and initial live build stages.
REDACTED	Security Specialist	0.7	1.00	It has become evident that there is a need for more device specific knowledge within the Security team as we have found with recent CPA compliance issues and upcoming constraints in aging devices in the field. This is a very specialist area and is not something extensively known about in the wider team.
REDACTED	Security Specialist	0.58	0.00	Specialist required to cover specific technologies in the programme exploring re-use of the network.

Role ID	Role Title			Rationale
REDACTED	Head of Security Demand and Delivery	0.00	1.00	We have no indication to date that demand-based activities will reduce in 2022, plus this role provides wider support in the management team to cover aspects of security governance when senior members are on leave or otherwise unavailable.
REDACTED	Security Architect	0.58	1.00	Contract Enterprise Security Architect role to cover the growing demand for security architecture requirements around the DCC EIT activity.

6.4.3 Enterprise IT

After DCC brought Enterprise IT services in-house, providing separation from Capita, to address segmentation and service issues there was a need to have an IT team in situ. It manages this additional responsibility whilst seeking to save costs on external management of services such as Microsoft 365, Microsoft Azure and Amazon Web Services, all of which are used extensively to run and support DCC's operations.

Activities driving change in resource in RY20/21

The extract below highlights some of the roles driving variance in RY20/21.

Role ID	Role Title	Variance 2020/21 (FTE proportion)	Rationale
REDACTED	Enterprise IT Director	0.45	This role was created in Q4 2020 to manage the strategy, resources, budget and day to day running of the growing Enterprise IT function as DCC have moved off the Capita IT network. Reporting into CISO.
REDACTED	Development Ops Engineer	0.41	SME DevOps engineer within the Enterprise IT Cloud Platforms Team. Hands on deployment and support of the DCC's cloud hosted environments as required.
REDACTED	Development Ops Engineer	0.41	SME DevOps engineer within the Enterprise IT Cloud Platforms Team. Hands on deployment and support of the DCC's cloud hosted environments as required.
REDACTED	Enterprise IT Architect	0.03	Accountable for the DCC's Enterprise IT architecture and strategy roadmap planning for, and post-split with Capita IT network.
REDACTED	Enterprise Test Analyst MOC/FOC	0.13	This role has been moved to Operations.
REDACTED	Enterprise Test Analyst MOC/FOC	0.13	This role has been moved to Operations.
REDACTED	Test Lead (Operations)	0.42	This role has been moved to Operations.
REDACTED	Enterprise Test Analyst	0.42	This role has been moved to Operations.
REDACTED	Enterprise Test Analyst	0.42	This role has been moved to Operations.
REDACTED	Cloud Architect	0.25	Part of the team responsible for the architecture, development and support of numerous Operational services including (but not limited to) TOC services, Interop Checker, EDAM and FTP (in AWS), SOC reporting, RStudio, third-party management of companies like Rolta, and all the account management of users in the AWS workspaces.

REDACTED			They are also actively involved with new programme delivery.
REDACTED	IT Manager	0.25	Team & Resource Manager of the internal DCC IT function, with responsibility for desktop assets, onsite comms room, relationship management with 3rd party.
REDACTED	Salesforce Solution Architect	0.25	This role provided Salesforce SME service to a number of programmes related to Customer Experience Management, Customer Relationship Management and Order Management.
REDACTED	Cloud Architect	0.41	Part of the team responsible for the architecture, development and support of numerous Operational services including (but not limited to) TOC services, Interop Checker, EDAM and FTP (in AWS), SOC reporting, RStudio, third-party management of companies like Rolta, and all the account management of users in the AWS workspaces. They are also actively involved with new programme delivery.

Activities driving change in resource in RY21/22 and RY22/23

The extract below highlights some of the roles driving variance in RY21/22 and RY22/23.

Role ID	Role Title	Variance 21/22 (FTE proportion)	Variance 22/23 (FTE proportion)	Rationale
REDACTED	Enterprise IT Director	1.00	1.00	This role was created in Q4 2020 to manage the strategy, resources, budget and day to day running of the growing Enterprise IT function as DCC have moved off the Capita IT network. Reporting into CISO.
REDACTED	Enterprise IT Architect	1.00	1.00	Accountable for the DCC's Enterprise IT architecture and strategy roadmap planning for, and post-split with Capita IT network.
REDACTED	Test Lead (Operations)	1.00	1.00	This role has been moved to Operations.
REDACTED	Enterprise Test Analyst	1.00	1.00	This role has been moved to Operations.
REDACTED	Enterprise Test Analyst	1.00	1.00	This role has been moved to Operations.
REDACTED	Cloud Architect	1.00	1.00	Part of the team responsible for the architecture, development and support of numerous Operational services including (but not limited to) TOC services, Interop Checker, EDAM and FTP (in AWS), SOC reporting, RStudio, third-party management of companies like Rolta, and all the account management of users in the AWS workspaces. They are also actively involved with new programme delivery.
REDACTED	IT Manager	1.00	1.00	Team & Resource Manager of the internal DCC IT function, with responsibility for desktop assets, onsite comms room, relationship management with 3rd party.
REDACTED	Development Ops Engineer	0.50	0.00	Initial service provision via contract resource
REDACTED	Development Ops Engineer	0.66	0.43	Perm replacement of contractor to provide enduring service
REDACTED	Development Ops Engineer	0.50	-	Initial service provision via contract resource

REDACTED	Development Ops Engineer	0.72	1.00	Perm replacement of contractor to provide enduring service
REDACTED	Cloud Architect	0.74	1.00	Part of the team responsible for the architecture, development and support of numerous Operational services including (but not limited to) TOC services, Interop Checker, EDAM and FTP (in AWS), SOC reporting, RStudio, third-party management of companies like Rolta, and all the account management of users in the AWS workspaces. They are also actively involved with new programme delivery.
REDACTED	EIT Strategy & Governance Manager	0.66	0.12	To set the structure and manage the governance framework in which EIT will work including alignment with DCC's Change Delivery Methodology (CDM), evidence and audit artifacts, risk management etc.
REDACTED	Enterprise In-life Change Manager	0.66	0.12	To manage change within DCC's cloud environment in line with best practice and audit requirements. Aligning changes with the fast-moving environments with DCC change management.
REDACTED	Microsoft 365 technical expert	0.72	0.12	Specialist knowledge to deliver security and compliance improvements, managing mobile devices and improving the processes for managing our assets correctly.
REDACTED	Enterprise Test Analyst	0.50	0.00	This role has now been moved to Operations.
REDACTED	Enterprise Architect	0.82	0.18	Accountable for the DCC's Enterprise IT architecture and strategy roadmap, preparing DCC for future transformation projects
REDACTED	Enterprise Solutions Operations Analyst	0.74	1.00	Contract position accountable for the support and training of users of CRM and CEP solutions during and post implementation.
REDACTED	Enterprise IT Support Analyst	0.80	1.00	Responsible for the support and administration of desktop users for a period as we expect an increase in issues as people return to the office and the existing resource concentrates on facilities management.
REDACTED	Cloud Architect (Azure specialist)	0.76	1.00	Azure cloud specialist to bring SME to the team. Azure is a core element of DCC's IT strategy and this role will ensure correct structure and setup is developed.
REDACTED	Collaboration Tooling & Power Automate Developer	0.50	1.00	Contract position responsible for the delivery of business improvement projects across all functions of DCC where automation will save time and money and increase accuracy and auditability.
REDACTED	Collaboration tooling Designer	0.44	0.00	Contract position responsible for the analysis and design of business improvement projects across all functions of DCC where automation will save time and money and increase accuracy and auditability.
REDACTED	Power Automate Designer	0.44	0.00	Role to deliver critical automation improvements including the development of PCAT using modern desktop.
REDACTED	EIT Transformation Manager	0.76	0.24	This role has been removed from Business Plan and will not be progressed. The forecast will be updated in due course and corrected for future submissions.

| REDACTED | Enterprise Solution Architect | 0.82 | 1.00 | Contract position to design and scope the CRM and CEP solutions, and their integration for Corporate Affairs, Regs and Customer Engagement. |
| REDACTED | Cloud Architect | 0.84 | 1.00 | Perm replacement of contractor to provide enduring service. |

6.4.4 Security Governance Risk & Compliance

The GRC team are essential to ensure DDC meets its regulatory security compliance and manages risk within business and industry appetite. They deliver day-to-day security advice and awareness activities in addition to managing ISO27001 certification, SOC2 Type 2 annual assessments, tScheme certification (now three certified PKIs since SMETS1 came online). The tScheme provides accreditation for the trust services we provide, it is mandatory to give assurance that the Trusted Services model is maintained and has legitimacy with the industry.), Licence ICO audits and compliance and Supply Chain Risk Assurance.

Activities driving change in resource in RY21/22 and RY22/23

With planned changes to the Data Protection status of DCC both within the Faster Switching Programme and recent activity with the Interoperability Checker coupled with an initiative to improve Data Management across the business we have to strengthen the Data Governance team. In addition, the In-life change team have placed additional demands on Security which was exacerbated by a loss of a key team member in this area, so it is essential we remove this single point of risk and resource accordingly. The extract below highlights some of the roles driving variance in RY21/22 and RY22/23.

Role ID	Role Title	Variance 21/22 (FTE proportion)	Variance 22/23 (FTE proportion)	Rationale
REDACTED	Information Security Assurance Analyst	0.09	0.00	Minor overspill of the contract resource as the ISO27001 catch-up work is completed and new schedules set for both ISO27001 and tScheme to ensure this situation is maintained by the permanent team now in place.
REDACTED	Security In-Life Change Lead	0.88	1.00	Permanent role to cover in-life change replacing a previous team member who left in the last Regulatory Year. Covering Energy Code (SEC) modifications, In-Life Changes, and going forward for the Retail Energy Code (REC) modifications.
REDACTED	Information Assurance Security Specialist	0.16	0.00	Final contract support to complete 2020 SOC2 assessment work and set-up 2021 ready for the new permanent team members.
REDACTED	Security GRC Analyst	1.00	1.00	Permanent role to cover the position previously covered by a contractor giving cover for internal ISO27001 auditing and risk management along with awareness support.
REDACTED	GRC Analyst	1.00	1.00	Permanent role to cover the needs of tScheme, ISO27001 and eventually SOC2 to give enough resources to consistently meet the demands of these certifications annually.
REDACTED	Data Protection & Governance Lead	0.00	1.00	Senior Manager role introduced in Q1 2020 to lead a team and provide strong SME knowledge on UK & Worldwide Data Protection requirements, GDPR legislation and Information Governance. Provides a key link to Capita Data Protection Officer (although there is expected to be more autonomy as DCC builds its Data Controller status).

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REDACTED	Information Governance and Data Protection Specialist	0.33	0.00	Contract role to assist the Head of Data Governance prepare DCC for significant changes to its GDPR status when Faster Switching goes live as we transform into a Data Controller for 30 million Data Subjects.
REDACTED	Information Governance and Data Protection Specialist	0.66	1.00	Continuation of contract role above 11.3425.03.01 to both prepare and support operation as DCC becomes a significant Data Controller in 2022.
REDACTED	Security In-Life Change Analyst	0.82	1.00	To meet demand from In-Life change and ensure that there is now single point of failure in this area an analyst role was identified to support the lead.
REDACTED	Information Governance and Data Protection Specialist	0.82	0.00	Contract role to cover additional Data Protection and Data Governance activities whilst a permanent role is filled.
REDACTED	Information Governance and Data Protection Specialist	0.66	1.00	Permanent role to replace role 11.3425.03.02 to support ongoing Data Controller responsibilities.
REDACTED	Security GRC Lead	0.00	1.00	Providing SME and Lead qualities for new and existing initiatives outside of programmes - implementation, assurance, and audit of DCC's Information Security Management System – licence requirement.
REDACTED	Head of Governance Risk and Compliance	0.00	1.00	Senior Manager reporting into the Director of Security. Responsible for ensuring DCC's compliance with ISO27001 (licence obligation), managing internal and external audits for ISO27001, SOC2, tScheme and other applicable Security requirements. Heads up team of Security Governance Risk and Compliance colleagues who run DCC's BAU/"Keep The Lights on" security activities.

6.5   Drivers for Variance – Non-Resource

Table 37: Material variance for Recruitment

GL	Incurred (£m)		RY20/21	RY21/22	RY22/23	
	Total Incurred Recruitment	£m	0.142	0.188	-	
	Total Incurred External Services	£m	0.856	1.098	0.544	
	Variance (£m)		**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance Recruitment	£m	0.121	0.188	-	
	Total Variance External Services	£m	0.406	0.780	0.344	
GL	**Variance (£m)**		**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**
RC	Recruitment	£m	0.121	**0.188**	-	N/A
ES	Audit/Assurance	£m	0.022	0.142	**0.330**	Pending in RY22/23
ES	Discovery & Transformation - REDACTED	£m	0.098	**0.260**	-	REDACTED

6.5.1 Recruitment

There is a forecast variance in RY21/22 for recruitment costs. This is generated by the expected level of recruitment in that year. The team is due to grow in areas including Demand and Delivery and Enterprise IT as we continue to ensure our systems and services are as secure as possible to support our programmes. There is also a need to extend the DCC Security Operations team to allow true 24/7 cover which under

recognised allowable working practices requires a team of at least six personnel. We set out above the details of the roles we are recruiting in RY21/22, and their rationale. The recruitment cost variance in this year is associated with our forecast cost for recruiting these roles.

6.5.2 External Services

There were no material variance items in External Services in RY20/21. The variance is formed of items that are minor and below the threshold including Audit, Assurance and Testing. There is one item of material variance in RY21/22 and one in RY22/23.

6.5.3 Discovery & Transformation - REDACTED

The variance in RY21/22 is formed of multiple items, however only one of them is materially variant, Discovery & Transformation – REDACTED, with £260k forecast incurred costs.

The bulk of this cost relates to a £REDACTED contract awarded to REDACTED in February 2021 for both SMETS1 and SMETS2 Capacity Review and Enterprise Capacity Management.

Drivers for Procurement

DCC is rapidly growing the number of devices that are managed through its network. To ensure that we deliver against our licence obligations and to deliver a high quality service, we need to focus progressively on enterprise Capacity Management. By doing so, we can run the services efficiently and effectively, delivering a "right first time" approach to all existing service growth and new services. Therefore DCC identified the need to engage a contractor to:

   a) Review DCC's test and live environments in conjunction with Service Provider Agreements and identify opportunities to improve efficiency and cost effectiveness of capacity management,

   b) Model lifetime cost of the SMETS1 and SMETS2 environments against forecast demand,

   c) Design, analyse, and work with DCC's test assurance team to improve the testing activities and testing strategy (including where necessary, updates to DCC Change Delivery Methodology (CDM)) for capacity and performance testing to deliver better outcomes for DCC which aligns to the enterprise capacity policy,

   d) Identify performance/stability risks to upstream/downstream SMETS1 and SMETS2 systems and propose mitigations.

Securing value for money

REDACTED have performed work for DCC previously and delivered excellent cost benefits on FOC (Cost was <£100k engagement, benefit was £1.6m per annum (over 10 years, so £16m lifetime) of cost avoidance). They have built up valuable knowledge of DCC's infrastructure, team and other DCC suppliers and have delivered demonstrable improvements as stated above.

Whilst this cost was previously included in the Security Cost Centre it will be reported in the Operations Cost Centre in future years. There will therefore likely be a corresponding negative variance in this cost centre and positive variance in Operations in the RY21/22 Price Control submission.

6.5.4 Audit/Assurance

There is a forecast variance of £330k in RY22/23 for Audit/Assurance. There is an annual Audit and Assurance requirement in this cost centre. The requirement stays at a relatively steady state, the forecast variance is appearing owing to the lower baseline in RY22/23.

VII. Service Delivery (Programme) – RY20/21 Variances Overview

Cost Centre Variance in RY20/21 by GL

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

Baseline (£m)		RY20/21	RY21/22	RY22/23
Total Programme		**11.540**	**12.467**	**0.330**
Payroll costs	PR	7.377	8.332	-
Non-payroll costs	NP	0.348	0.453	-
Recruitment	RC	0.071	-	-
External services	ES	0.260	0.061	0.200
Internal services	IS	0.000	0.000	0.130
IT Services	IT	3.484	3.621	0.000
Incurred (£m)		RY20/21	RY21/22	RY22/23
Total Programme		**11.833**	**11.921**	**11.227**
Payroll costs	PR	7.413	10.461	9.955
Non-payroll costs	NP	0.002	0.287	0.382
Recruitment	RC	0.150	0.208	-
External services	ES	0.987	-	-
Internal Services	IS	-	-	-
IT Services	IT	3.280	0.965	0.890
Variance (£m)		RY20/21	RY21/22	RY22/23
Total Programme		**0.293**	**-0.545**	**10.897**
Payroll costs	PR	0.036	2.130	9.955
Non-payroll costs	NP	-0.346	-0.165	0.382
Recruitment	RC	0.079	0.208	-
External services	ES	0.727	-0.061	-0.200
Internal services	IS	-0.000	-0.000	-0.130
IT Services	IT	-0.204	-2.657	0.890

Cost Centre Variance by Staff Type and Team

The table below shows the payroll variance by sub-team within the Service Delivery (Programme) cost centre.

Programme Payroll Costs	RY20/21	RY21/22	RY22/23
Baseline	**7.377**	**8.332**	**-**
Business Analysis Practice	0.750	0.602	-
Portfolio and PMO Transformation	1.419	1.476	-
Programme and Project Management	1.934	2.445	-
Programme Director	0.900	1.266	-
Service Delivery Office	0.495	0.439	-
Test Assurance Practice	1.880	2.104	-
Incurred	**7.413**	**10.461**	**9.955**
Business Analysis Practice	0.859	0.988	0.582
Portfolio and PMO Transformation	1.311	1.645	1.748
Programme and Project Management	2.070	3.554	3.155
Programme Director	0.746	0.673	1.098
Service Delivery Office	0.909	1.221	0.888
Test Assurance Practice	1.517	2.380	2.485
Variance	**0.036**	**2.130**	**9.955**
Business Analysis Practice	0.109	0.386	0.582
Portfolio and PMO Transformation	-0.108	0.168	1.748
Programme and Project Management	0.136	1.109	3.155
Programme Director	-0.153	-0.592	1.098
Service Delivery Office	0.414	0.782	0.888
Test Assurance Practice	-0.363	0.276	2.485

7. Service Delivery (Programme) Cost Centre

7.1 Purpose, Scope and Structure

7.1.1 Purpose

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

7.1.2 Scope

During RY19/20, there was an organisational restructure, which saw the Business Analysis and Test Assurance practices transferred into the Service Delivery function. This transfer significantly increased the functional headcount, almost doubling its size and this model is reflected in RY20/21 headcount figures. Reflecting this reorganisation, equivalent reductions can be found in other cost centres.

This restructure was carried out in order to ensure appropriate specialism of these business-critical resources across the CTO, Operations and Service Delivery functions. Service Delivery now has the focus and the necessary accountable resource to concentrate on major industry programmes and delivery of change.

Our internal delivery capability comprises:

- Programme Directors and Enterprise Delivery practice.
- Portfolio Office.
- Programme Management Office (PMO).
- Delivery Practice
  - o Business Analysis practice.
  - o Programme and Project Management practice including Project Delivery Support.
  - o Test Assurance practice.

Contribution to DCC strategy

The Service Delivery function provides much of the capability and expertise to deliver the complex change portfolio for Smart DCC through its highly skilled and capable delivery professionals across Programme Leadership, Programme and Project Management, Business Analysis and Test Assurance.

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

Key events and objectives driving activity and cost

The delivery of the following objectives was worked on over the course of RY20/21:

1) Successfully deliver DCC's inventory of Programmes (including SMETS1, Switching, Network Evolution, Enterprise IT, Enterprise Security etc.)

2) Deliver Portfolio & PMO transformation capabilities to:

   a) Integrate CDM workflow and approvals into Clarity PPM tool

   b) Establish PMO 'Centre of Excellence' across critical disciplines - Planning, Risk & Issue management, financials, business case and benefits tracking - defining standards, providing training, coaching and guidance to project managers.

c) Improve the CDM methodology to include additional gates and governance at Design, Build and Test stage exits

d) Improve CDM methodology to include Lessons Learned processes

3) Improve Service Delivery Practice Capability and resourcing approach

a) Established a Professional Services Team encompassing business analysis, programme and project management and test assurance

b) Implemented capability assessment system for all team members, linked to personal development plans

c) Developed standard service offerings for the practices

d) Established central knowledge hub of training material, standard artefacts and lessons learnt

e) Strategic Capability roadmap aligned and integrated with wider DCC practices, is defined and agreed.

f) Pre-allocated resources on a 3-monthly forecast basis

g) Resources assigned to work with understanding of complexity and skills enabling resource re-use – right resources for right work.

h) Established standard team performance review process across practices,

4) Increase the maturity and effectiveness of the business analysis capability to ensure it is fit for purpose and future proofed to support the evolution of the DCC total system.

a) Introduced controls to ensure traceability of requirements to designs and commercial documentation

b) Improved induction process

c) Reviewed organisational structure, approach to deploying BAs onto programmes and the resourcing approach (contractor vs permanent; in-house delivery vs outsourced delivery).

5) Increase the maturity and effectiveness of the Test Assurance practice

a) Established a Production Support Testing service, saving circa £350k service provider costs

b) Improved processes for producing industry facing reports and providing information to the Testing Advisory Group

c) Developed and commenced implementation of a shift left strategy, reducing the number of SIT defects that could have been identified in PIT

6) Drive PM performance management via engaging and supportive approach, with clarity of R&R across Programme and Practice

a) Improved recruitment and induction process

b) Reviewed organisation structure, approach to deploying Programme and Project Managers onto programmes and resourcing approach

c) Established a team of Programme Co-ordinators, reducing the volume of Project Manager resource required

d) Implemented mandatory training courses in CDM

e) Improved financial control processes and clarified role of PPM practice in respect of raising purchase orders and approving work for payment.

7.1.3. Service Delivery Cost Centre Structure

During RY19/20, as a result of the organisational restructure, the Business Analysis and Test Assurance practices transferred into the function. This transfer significantly increased the headcount within the function and importantly provided the opportunity to establish a delivery practice across business analysis, test assurance and programme and project management. The ambition being to create a delivery practice that

operates on a best in class consultancy model principles to support a flexible portfolio of delivery that enables the realisation of DCC's strategy.

During RY20/21, the cost centre's organisational structure was as follows:

Figure 7 – Cost centre organisational structure RY20/21
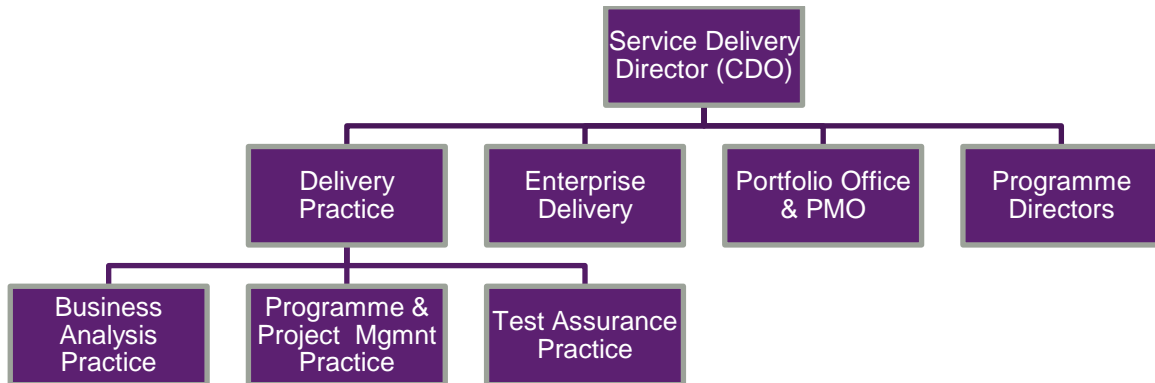
The table below shows the structure in RY20/21 and a description of the teams within the structure.

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Description
N/A	Service Delivery Office	The office of the Service Delivery Director (CDO). Including personnel with a view over the running of the cost centre as whole. Including: Director of Practice, Transformation Director, Service Delivery Director, Practice Manager, Delivery Assurance Manager, Professional Services Director, Programme Resource Planning Manager, Strategy & Planning Consultant and Transformation Leads.
Programme & Project Management Practice (PMP)	Programme & Project Management Practice (PMP)	Comprised of Head of Practice, Programme and Project Managers and project delivery support, the practice delivers an internal consultancy of professional programme and project management services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.
	Programme Directors	Comprised of Programme Directors, who are part of the Service Delivery senior leadership team (SLT) and report into the Chief Delivery Officer (some via the Enterprise Delivery Director). Each Programme Director is accountable for the successful delivery of their assigned programmes of work.
	Enterprise Delivery Directors	

Sub Team structure reported in RY19/20	Current Sub-team RY20/21	Description
Portfolio Office & PMO	Portfolio Office & PMO	**Portfolio Office** Comprises a Head of Portfolio Transformation, PO Managers, Senior Analysts and Administrators. It is accountable for the Change Delivery Methodology (CDM), mandated for all projects and programmes. In addition, it provides the controls and facilitates the governance of the overarching portfolio of change across DCC by enabling the approval, planning and sequencing of change based on an integrated view of change demand, resource supply, delivery plans and insight across all delivery. The Portfolio Office is accountable for designing the portfolio-level processes, tools and templates required to support successful change delivery. **Programme Management Office (PMO)** Comprises PMO Managers, Senior Analyst and Analyst roles, delivering PMO capability, independent assurance, support and advice to the Programme Directors and the Project Management Practice to support successful change delivery. Ensures consistent programme set up and processes and assures change delivery through education of the mandated standards to support effective embedding and validation of adherence to the CDM by each programme and undertaking of Programme Health checks.
Business Analysis Practice	Business Analysis Practice	Comprised of Head of Practice, Senior Business Analysts and Business Analysts, the practice delivers an internal consultancy of professional business analysis services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery.
Test Assurance Practice	Test Assurance Practice	Comprised of Head of Practice, Test Assurance and Test Governance professionals at Manager, Lead and Analyst levels, the practice delivers an internal consultancy of professional test assurance services through the provision of capable resources at the right time, using consistent, appropriate methods and tools and working to quality assured standards to support a flexible portfolio of delivery. The practice engages closely with DCC stakeholder governance groups to obtain the feedback and decisions to ensure testing of changes to DCC's systems and services are robust and assures the testing of DCC's service providers.

7.1   Cost Centre Variance

Variance by GLs in the RIGs

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

Table 38: Cost centre variance by GL

			RY20/21	RY21/22	RY22/23
Total Baseline - Programme		£m	**11.540**	**12.467**	**0.330**
Total Incurred - Programme		£m	**11.833**	**11.921**	**11.227**
Total Variance - Programme		£m	**0.293**	**-0.545**	**10.897**
Payroll costs	PR	£m	0.036	2.130	9.955
Non-payroll costs	NP	£m	-0.346	-0.165	0.382
Recruitment	RC	£m	0.079	0.208	-
External services	ES	£m	0.727	-0.061	-0.200
Internal services	IS	£m	-0.000	-0.000	-0.130
IT Services	IT	£m	-0.204	-2.657	0.890

Payroll costs variance

The overall Payroll costs variance is positive but not material in RY20/21. In RY21/22 and RY22/23 the payroll costs variances are positive and material.

Variance by Sub-Team

In RY20/21, the overall Payroll variance is slightly positive. Only the Service delivery office sub-team returned a material (greater than £150,000) variance in RY20/21. In RY21/22, all sub-teams except Programme Directors, are showing material variances. In the forecast, all teams show a material variance in the final year simply because of the artificially low baseline for the final year. Further details are provided below.

Table 39: Cost centre variance by sub-team

Programme Payroll Costs (£m)	RY20/21	RY21/22	RY22/23
Variance	**0.036**	**2.130**	**9.955**
Business Analysis Practice	0.109	0.386	0.582
Portfolio and PMO Transformation	-0.108	0.168	1.748
Programme and Project Management	0.136	1.109	3.155
Programme Director	-0.153	-0.592	1.098
Service Delivery Office	0.414	0.782	0.888
Test Assurance Practice	-0.363	0.276	2.485

7.2 Drivers for Variance – Resource

7.2.1 Service Delivery Office

The office of the Service Delivery Director (CDO) includes the management team of the cost centre as whole. It includes: Director of Practice, Transformation Director, Service Delivery Director, Practice Manager, Delivery Assurance Manager, Professional Services Director, Programme Resource Planning Manager, Strategy & Planning Consultant and Transformation Leads.

Activities driving change in resource in RY20/21

The variance is driven by a combination of movements from other areas of DCC as part of the restructure, and the addition of two new roles: a Programme Resource Planning Manager and a Strategy and Planning lead. A Professional Services Director from transferred into this team from another area of Service Delivery, to oversee the development of our capability in certain specialisms. In addition, last year a Director of Practice within our baseline began in post in January 2020. This year REDACTED worked 50% of the time for Service Delivery, increasing the incurred FTE for this role from 0.2 to 0.5. As can be seen from the above however, the reorganisation of the cost centre has not had on overall material impact on payroll costs.

Activities driving change in resource in RY21/22 and RY22/23

RY21/22 – The variance arises from the introduction of four new roles to the business, including a Transformation Director and three Transformation Lead roles. These roles were part of and approved in the 20/21 Business Plan and remain an integral part of the business and support DCCs overall transformation strategy.

In addition, we see full years from some of the resources that started in RY20/21, this increases the FTEs and therefore costs.

RY22/23 - The variance increases in RY22/23 even though forecast costs are set to reduce slightly; this is because the costs are being compared to a zero-baseline due to forecast disallowances.

7.2.2 Business Analysis Practice

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

The Practice has continued to focus on resourcing activity predominantly to ensure the right capability exists across the key projects and programmes, in addition to driving capability in the requirements capture stage through the initial stages of the Change Delivery Methodology. This stage is crucial to ensure that when a project or programme moves into the Build phase it does so with a clear and agreed specification.

Activities driving change in resource in RY21/22 and RY22/23

RY21/22 – There are several new programmes of work due to being in 2021, which are set to continue through to RY23/24. These include Distributed Network Operators, the expansion of Network Evolution to include DSP Re-procurement and DSP extension, Network Evolution Trusted Service Provider (TSP) and Half Hourly Settlement (HHS). Additionally, SMETS1 has suffered from extensions and delays, which has impacted the availability of resource that would have been supplied to programmes such as Network Evolution CHN Single Band and Dual Band and Enduring Change of Supplier (ECOS). SMETS1 has also introduced two new projects, Service Enhancements and Maximising Migrations (covered under the SMETS1 In Life Programme) which has increased demand and need for additional resources. They are currently being managed by Service Delivery until a point at which the handover to BAU (Operations) will be completed. This is unlikely to be before April 2022.

There is a decrease in the baseline, and an increase in the likely incurred costs (relative to RY20/21). Combined, this delivers a material and increased variance. Increases in forecast incurred costs are largely driven by several vacancies that are due to start in the regulatory year.

Overall, there is no increase in FTEs within the team but rather there are two new more senior roles (Business Analysis Manager, Senior Business Analyst) help create an increase in the total costs. The Business Analysis Manager role has now been repurposed as Head of Profession: Business Analysis and re-benchmarked, which will incur a small increase in cost. Due to headcount restraints across the Service Delivery Business the Business Analysis Team reduced in number of permanent members of staff and increased in contingent workers, with a balance of 60/40 Contingent vs Perm, whereas the target is 70/30 Perm vs Contingent. This has resulted in increased costs but because of the nature of the programme-based work, it will be more cost-effective than recruiting permanent staff and having to make them redundant when the programme completes.

RY22/23 - The variance increases in RY22/23 even though forecast costs are set to reduce. This is because the costs are being compared to a zero-baseline due to forecast disallowances.

7.2.3 Portfolio and PMO Transformation

Portfolio Office

Comprises a Head of Portfolio Transformation, PO Managers, Senior Analysts and Administrators. It is accountable for the Change Delivery Methodology (CDM), mandated for all projects and programmes. In addition, it has accountability it provides the controls and facilitates the governance of the overarching portfolio of change across DCC by enabling the approval, planning and sequencing of change based on an

integrated view of change demand, resource supply, delivery plans and insight across all delivery. The Portfolio Office is accountable for designing the portfolio-level processes, tools and templates required to support successful change delivery.

Programme Management Office (PMO)

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

Activities driving change in resource in RY21/22 and RY22/23

RY21/22 – The variance in costs is largely due to several vacancies due to start during RY21/22. These include five permanent Portfolio Office Managers to replace consultant resources. Other roles due to start in the year are a permanent Portfolio Planning Manager and Portfolio Office Manager.

Replacing the consultant resources represents a full year cost saving to the business of between £500-600K. Due to phased recruitment, we expect to achieve cost savings this RY of £100K, however this is based on achieving recruitment targets.

RY22/23 - The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower (zero) baseline due to forecast disallowances.

7.2.4 Programme and Project Management

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

Activities driving change in resource in RY21/22 and RY22/23

RY21/22 – The increases are due to increased programme demand. There are several new programmes of work due to being in 2021, which are set to continue through to 2023/24. These include Distributed Network Operators, the expansion of Network Evolution to include DSP Re-procurement and DSP extension, Network Evolution TSP and Half Hourly Settlement (HHS). Additionally, SMETS 1 has suffered from extensions and delays, which has impacted the availability of resource that would have been supplied to programmes such as Network Evolution CHN Single Band and Dual Band and Enduring Change of Supplier (ECOS). SMETS1 has also introduced two new projects, Service Enhancements and Maximising Migrations (covered under the SMETS1 In Life Programme) which has increased demand and need for additional resources. They are currently being managed by Service Delivery until a point at which the handover to BAU (Operations) will be completed. This is unlikely to be before April 2022.

Three Programme Manager vacancies due to start during the year. Ten Project Manager vacancies due to start. Overall an increase of ten FTEs compared to 20/21.

RY22/23 - The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower (zero) baseline due to forecast disallowances.

7.2.5 Test Assurance Practice

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

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

Activities driving change in resource in RY21/22 and RY22/23

RY21/22 – Drivers for increased resource costs are the expansion of the remit and increased demand from Network evolution including TSP and new programmes such as Distributed Network Operators (DNO) and Enduring Change of Supplier (ECOS). There is also additional demand, which was not in original baseline for In-Life Change programme, due to SEC modifications.

These activities drive an overall increase in nine FTEs compared to RY20/21. Contributing to this are eleven vacant roles due to start in RY21/22. These include Production Support Testing Manager, Production Support Test Analyst, Production Support Test Lead, Test Assurance Analysts, Test Assurance Manager and Test Assurance Leads. Five of these are permanent roles that will continue into future years. For clarity, however, last year's baseline for this cost centre in RY21/22 was £2.104m associated with 28.5FTE, and we are forecasting costs for that year of £2.380m for the same number of FTEs. In other words, although the costs are higher than the baseline, the number of resources driving the cost has not changed from last year's baseline. Instead we are forecasting different start and end dates and combinations of resources in this cost centre, creating an overall modest increase in costs.

RY22/23 - The variance increases significantly in RY21/22 as we continue the activity described above but compare it to a much lower (zero) baseline due to forecast disallowances.

7.2.6 Programme Director

Comprised of Programme Directors, who are part of the Service Delivery senior leadership team (SLT) and report into the Chief Delivery Officer (some via the Enterprise Delivery Director). Each Programme Director is accountable for the successful delivery of their assigned programmes of work.

Activities driving change in resource in RY22/23

The variance increases significantly in RY22/23 as we anticipate an increase in incurred resource costs which is compared it to a much lower (zero) baseline due to forecast disallowances.

Due to the BEIS's approval of the Network Evolution business case giving DCC authority to recruit, additional Programme Directors onboarded. There is now a programme director for CHN Single Band and Dual Band, and a Programme Director for DSP. There is also a plan to recruit a Programme Director for TSP and the Test Automation Framework (TAF).

We have also introduced two new Enterprise Delivery Directors; whose role sits between the Chief Delivery Office for Service Delivery and the Programme Directors. This is to ensure a stronger leadership team and to support Programme Directors in management of the programmes as they move through the various delivery stages. These roles were not in original baseline because of the Price Control certainty threshold and are enduring, meaning they will be in place until 2025.

7.3   Drivers for Variance – Non-Resource

7.3.1 Summary

During RY20/21, there were two procurements within Service Delivery (Programme) that had material variance, (i.e. over £0.15million). The breakdown is provided below.

Table 40: Material variance for Service Delivery non-resource internal costs

	Incurred (£m)	RY20/21	RY21/22	RY22/23	
	Total Incurred External Services	0.987	-	-	
	Total Incurred IT Services	3.280	0.965	0.890	
	Variance (£m)	**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance External Services	0.727	-0.061	-0.200	
	Total Incurred IT Services	-0.204	-2.657	0.890	
GL	**Variance detail (£m)**	**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**

ES	DBCH - Programme Assistance REDACTED	0.307	-	-	REDACTED	
ES	Enterprise Delivery Transformation Implementation REDACTED	0.165	-	-	REDACTED	

7.3.2 DBCH – Programme Assistance REDACTED

Driver for the Procurement

There was a rapid review conducted of the Dual Band Communications Hub (DBCH) programme in January 2020, aimed at highlighting priority remediation actions to bring a higher level of delivery confidence to the programme. This was initiated because DCC had encountered several delays with the programme. It should have delivered in October 2018 but had been subject to delay for several reasons, with even the latest (December 2019) Joint Industry Plan showing signs of delay and weaknesses soon after it was approved. Specific problems included:

- Delivery being hit by repeated failures in testing causing the programme to loop around a lengthy rework and retest cycle.

- Although clearly impacted by dependency issues (e.g. availability of meters for the test platform) a major concern was in the devices with issues specifically in the performance of the chip sets.

- Concern also existed over how risks were declared and managed.

- There was low confidence in the control of delivery by the prime vendors and the current plan at the time.

The rapid review identified opportunities to improve and optimise the governance of the programme. It was determined that targeted resource was required, to work for the Programme Director to assist in the governance process.

REDACTED produced a Statement of Work (SOW) on 27 January 2020, outlining their proposed support in this area. Central to this was their provision of the following resources to work under the direction of the DCC Programme Director (consultancy's, not DCC's, job titles):

- Programme Director,

- Senior Programme Manager.

- Project Support (ad-hoc as required).

The consultancy resources worked on the following key activities:

- Assisting DCC with the management of Arqiva and Telefonica in the delivery of the Dual Band Comms Hub programme.

- Optimising governance processes, implementing changes as required and agreed with DCC Programme Director, establishing and managing new or changed processes.

- Challenging the programme plans and dependencies, reviewing and updating them as required in agreement with DCC Programme Director and ongoing review.

- Optimising the reliability and quality of management information for distribution to BEIS & Industry.

Securing Value for Money

Sourcing Approach

The initial Statement of Work was accepted in January 2020 with subsequent extensions in April 2020 and June 2020. At each extension there was an opportunity to assess the value added and the current business need. Once identified a new statement of work was requested, issued by the consultant and approved by DCC. The details of the initial engagement and subsequent extensions is shown below.

Table 41: Change process for PR1190 DBCH Governance Support and related purchase numbers (PO 4800430279 was approved in RY19/20 but there were financial transactions in RY20/21)

Product Description	PO No.	Supplier	SOW Issue Date	PO Created Date	PO Approval Date	Order Quantity £
PR1190 DBCH Governance Support (Jan-Mar)	4800430279	REDACTED	27/01/2020	28/01/2020	28/01/2020	REDACTED
PR1190 DBCH Governance Support (Apr-May)	4800441539	REDACTED	03/04/2020	30/04/2020	30/04/2020	REDACTED
DBCH Governance Support (Jun-Aug)	4800445269	REDACTED	02/06/2020	11/06/2020	11/06/2020	REDACTED

7.3.3 Enterprise Delivery Transformation Implementation

The implementation of the proposals of The Enterprise Delivery Transformation Phase 1.

Driver for the Procurement

Historically, Smart DCC has focussed heavily on the delivery of large-scale mandated change programmes, and whilst there is opportunity for improvement, the capability and delivery methodology are well established.

An Enterprise Change Portfolio of projects and programmes has been established. Whilst delivery of these projects and programmes has been somewhat successful, there was a clear and significant opportunity, recognised and encouraged by the SEC panel, to implement new methodologies and ways of working to capitalise on the greater level of freedom due to the non-mandated nature of the changes.

Reviewing the way projects and programmes within the Enterprise Delivery Portfolio are delivered and governed and introducing changes in approach and methodology is expected to realise significant benefits with shorter delivery timescales, greater predictability, and earlier realisation of benefits.

Whilst the benefits were targeted within the Enterprise Delivery Portfolio, it was expected that it will act as a proving ground for extending the improvements (and thus the benefit opportunity) into the more complex and more heavily constrained area of large-scale mandated change.

The day-to-day pressures of delivering an ambitious change portfolio make it very difficult for those with day-jobs within Smart DCC to drive transformational change across the organisation and to apply the required level of focus. Additionally, identifying and implementing a step change of approach requires delivery expertise gained across multiple organisations and industries, whilst also recognising the constraints and nuances of Smart DCC, and the wider environment.

The Enterprise Delivery Transformation Phase 1 was approved on 21 April 2020 which enabled the consultant to deliver the Enterprise Delivery Transformation requirements – this consisted of two main activities:

1. Development of a proposal to implement a dedicated multi-party cross functional design team to accelerate the delivery of Impact Assessments for SEC Modifications and create better value-for-money solutions.

2. Development of a proposal and plan for implementing Agile Delivery Methodology as a Proof of Concept.

The output of Phase 1 included a fully documented proposal and implementation plan to set up an integrated design process across multiple stakeholders.

The project did not cover the implementation of these two proposals. Therefore, DCC needed to identify the best way to implement the proposals.

Securing Value for Money

DCC had several options of how they could implement the Enterprise Delivery Transformation proposals, including:

- Option 1 – Internally recruit a project team: Timescales >6 months estimated costs 200k-400k (includes timescales and cost of recruitment for 2/3 additional FTE, or cost of 2/3 Contractors for 3-4 months' work),

- Option 2 – Competitively tender: Timescales >6 months estimated costs £300-400k (includes cost of procurement and assumptions a new provider would carry out their own review thus repeating the previous piece of work (2months). Also, without the same expertise as the selected provider holds, the delivery timescales would extend by approx. 1-2 months. Total time estimate would therefore by 6months @2.5 FTE @ £1000/day),

- Option 3 – Selected provider complete the implementation. Timescale - 3 months, estimated cost £171k.

The selected provider was best placed to implement their proposals and put their fee at risk against the benefits case on this basis.

There was also a time critical dependency upon implementation due to the link to Q4 Corporate Objectives and the current non-compliance to the SEC.

Option 3 was the preferred option based upon the assumptions presented above.

Sourcing Approach

The approved procurement route for these requirements was a REDACTED. A Request for Quotation was developed and issued to REDACTED.

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

Table 42: Procurement Process Breakdown

REDACTED	
Key Activities	Issue RFQ to Bidder: 28 September 2020 RFP response submission: 5pm, 30 September 2020 Contract Award: 2 October 2020
Quality Tender Evaluation	The evaluation team consisted of: REDACTED The initial written response scoring was carried out between 30 September – 1 October 2020 and a moderation session was held on 2 October to discuss the merit of the responses. Quality Scores REDACTED
Commercial Evaluation	The commercial element of the quotation was evaluated by REDACTED. This consisted of reviewing the pricing submitted by the supplier along with the estimated days (due to this being a time and materials contract) and contract mark-up. Commercial Scores

	REDACTED
Tenderers	REDACTED
Award Recommendation	REDACTED
Reasons for recommendation	It was recommended that in accordance with the terms of the Request for Quotation, REDACTED was awarded the contract for the Enterprise Delivery Transformation Implementation. The recommended supplier provided a robust response to the requirements and proposed a highly experienced team to perform the services, some of whom have hands on experience within DCC and have demonstrated high quality performance. _Risk_ As this was a relatively new organisation there was a risk in terms of capacity. However, the experience of the personnel delivering the project and the robust methodology proposed for delivery were deemed to be satisfactory mitigation for this risk.
Cost Summary	The internal budget for these services was REDACTED. The contract will be delivered under a time and material pricing model and the total estimated cost was REDACTED. The recommended supplier provided reasonable day rates and a detailed breakdown of the anticipated effort, which the evaluation panel believed was realistic. The commercial submission included a risk sharing model, whereby 27.59% of the incurred day rate was retained (20% for the Assignment Lead and Process Architect, and 50% for the Managing Partner) and became payable based on achievement of Critical Success Factors, which are to be agreed by both parties prior to contract signature.

7.3.4 IT Services

RY22/23

In RY22/23 there is a forecast material variance of £890,000 for IT Services non-resource costs.

However, there is no significant increase in the forecast costs for this year. There are four enduring cost items forecast annually in future years through till RY25/26. These are:

- Billing
- Software
- Servers
- Finance Systems.

As can be seen in the table below, there are no material increases in forecast costs for any of these items in RY22/23. Instead the large increase in variance is due to the zero baseline in RY22/23. This is because there are allowed baselines only for the next two years.

Table 43: Details of material IT variance in RY22/23

Forecast Year		RY21/22	RY22/23	RY23/24	RY24/25	RY25/26
Total IT Baseline	**£m**	**1.336**	-	-	-	-
Total IT Incurred	**£m**	**0.815**	**0.890**	**0.834**	**1.006**	**0.784**
Billing	£m	0.285	0.265	0.265	0.511	0.511

Software	£m	0.347	0.442	0.442	0.362	0.151
Servers	£m	0.142	0.142	0.086	0.081	0.081
Finance systems	£m	0.041	0.041	0.041	0.052	0.041
Total IT Variance	**£m**	**-0.521**	**0.890**	**0.834**	**1.006**	**0.784**

VIII. Parsing and Correlation Service – RY20/21 Variances Overview

For non-resource internal costs accounting purposes the Parsing and Correlation Service exists as its own cost centre. However, this is for legacy reasons and in the RIGs it is included as Additional Baseline.

Cost Centre Variance in RY20/21 by GL

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

Baseline (£m)		RY20/21	RY21/22	RY22/23
Total Parsing and Correlation Service		0.124	0.124	-
Payroll costs	PR	-	-	-
Non-payroll costs	NP	-	-	-
Recruitment	RC	-	-	-
External services	ES	0.124	0.124	-
Incurred (£m)		RY20/21	RY21/22	RY22/23
Total Parsing and Correlation Service		0.488	0.600	0.684
Payroll costs	PR	-	-	-
Non-payroll costs	NP	-	-	-
Recruitment	RC	-	-	-
External services	ES	0.488	0.600	0.684
Variance (£m)		RY20/21	RY21/22	RY22/23
Total Parsing and Correlation Service		0.364	0.476	0.684
Payroll costs	PR	-		
Non-payroll costs	NP	-	-	-
Recruitment	RC	-		-
External services	ES	0.364	0.476	0.684

8. Parse & Correlate Cost Centre

8.1 Drivers for Variance – Non-Resource

For non-resource internal costs accounting purposes the Parsing and Correlation Service exists as its own cost centre. However, this is for legacy reasons and in the RIGs it is included as Additional Baseline.

8.1.1 Summary

During RY20/21, there is one group of procurement within the Parsing and Correlation cost centre that had a material variance, (i.e. over £0.15million). Within this group of costs, one single procurement, GFI Annual Support had material variance, with total costs of £233,675.

Details of this individual procurment are provided below.

Table 44: Material variance for Parsing and Correlation Service non-resource internal costs

	Incurred (£m)	RY20/21	RY21/22	RY22/23	
	Total Incurred External Services	0.488	0.600	0.684	
	Variance (£m)	**RY20/21**	**RY21/22**	**RY22/23**	
	Total Variance External Services	0.488	0.600	0.684	
GL	**Variance (detail) (£m)**	**RY20/21**	**RY21/22**	**RY22/23**	**Procurement Type**
ES	Parsing and Correlation Service (GFI Annual Support)	0.364	0.476	0.684	Single Source, Enduring annual service

8.1.2 GFI Annual Support

Within the Parsing and Correlation Service in RY2021 there was only one procurement that was individually material. This was the GFI Annual Support, with costs of £233,675. This is the latest installment of the long-term annual suppoirt provided by REDACTED since 2014. The support contract does not provide emulator uplift services but is simply an ongoing suppoirt service fixing bugs and ensuring the smooth operation of the GFI tool.

Driver for the Procurement

Device emulators are used in DCC integration testing environments to enable DCC to test their systems against the latest version of technical standards. Technical Standards are the Smart Meter Equipment Technical Standards (SMETS) and the Great Britain Companion Specification (GBCS). These Standards are applicable to both DCC systems and Smart Metering Equipment. Standards are baselined twice a year as part of development of the Smart Energy Code, although typically changes to device capability will only be made once per year. When this occurs, DCC's systems must be tested thoroughly to ensure they are operating in line with Technical Standards prior to these standards coming into force.

DCC requires device emulators to replicate the behaviour of Electricity Meters, Gas Meters, In-home displays, Pre-Payment interface Devices and HAN Connected Auxiliary Load Control Switches aligned to Technical Standards. Additionally, to support Industry to comply with Technical Standards, DCC provides the "GBCS Integration Testing for Industry" device emulators, known informally as GFI. GFI also has many features of the SMETS standard, with some exceptions as it is a test tool product, not intended for use in the live operating environment.

It is necessary to provide ongoing support to the GFI tools.

Securing Value for Money

Sourcing Approach

Critical Software have been providing GFI annual support since 2014. In 2017 this was incorporated, as one of two core elements of support, into a new Critical Software SMETS2 Agreement. The agreement followed on from earlier agreeements covering similar services and covers a five-year + extension term.

Contractor Requirements

The contractor was requested to enhance and adapt the GFI tool for release to industry to support the testing of meters. This to include:

- Support the transmission of commands and reception of alerts/responses for all GBCS uses case to real smart meter devices,

- Provide supporting documentation for the installation and operation of GFI,

- Identification of the Hardware requirements to setup the GFI test environment,

- Support events against which the test participants can test devices against the ATG Tool and GFI, including provision of test scripts and expected results.

Contractor Solution

The contractor agreed to the provision of:

- Full source code of GFI including unit test and compilation scripts,

- Binary libraries of VSIS elements required to compile GFI,

- GFI Installation Manual,

- Bill of Material required to setup GFI test environment,

- GFI User Manual,

- GFI Test-Case Development Reference Guide,

- Release Notes for each of the eight foreseen releases of GFI.

Securing Value for Money

Adherence to Procurement Process

This is a multi year agreement with annual purchase orders raised for the support to be provided that year. The table below sets out the timescales for the PO approval process.

Table 45: Procurement process for PO 4800442622, RY20/21

Purchase Order #	PO Fixed Price Cost	PO Requested	PO Approved
4800442622	£233,675	14/05/20	14/5/2020

Long-term Annual Support

The chart below shows the relatively flat long-term GFI annual support costs under the current contract.
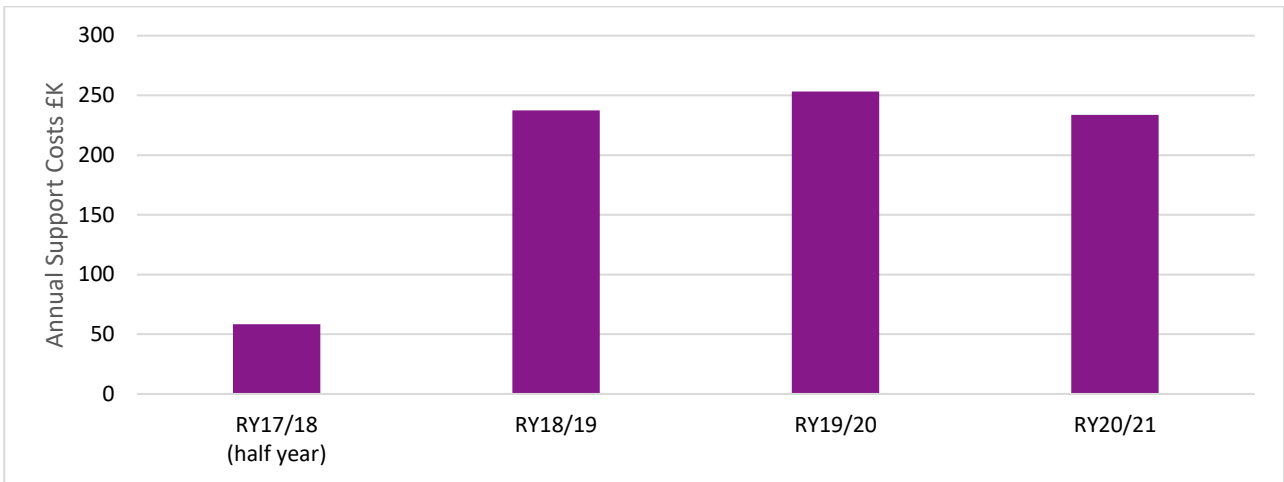
Figure 8: Chart showing the GFI annual support costs under the current contractual arrangements