Data Communications Company

DCC Price Control RY25/26 – Financial Reporting Commentary

Version: 1.0
Date: 31.07.2026

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1. Introduction and purpose

The purpose of this document is to set out the supporting financial information for the DCC Price Control 2026 submission, also known as Price Control Information[1]. In summary it sets out:

- The assumptions applied in populating the Regulatory Instructions and Guidance (RIGs) template.
- Responses to questions in the RIGs template (worksheets 3, 8 and 9).
- Specified information: supporting questions 9.7; 9.8; 9.14; 9.16; and 9.17.
- Commentary and justification (if required) for the penalty interest regime.

2. Developing the RIGs forecast

The RIGs forecast is the forecast costs included in the RIGs price control templates. These were determined as part of the business planning process undertaken in early 2026, which focusses on forecasts for the next five years.

We allocate all forecasts to one of two categories they are 'committed' or 'discretionary'. The forecasts included in the price control forecast are only those deemed 'committed' as these meet the certainty threshold required for price control i.e. more likely to be incurred than not. For this reason, the RIGs forecast will always be lower than the forecasts included in the quarterly charging statements and budgets. Factors used to determine which category to assign costs are:

- Committed – all costs subject to signed agreement, for changes it will be only those that have an associated Change Authorisation Note (CAN).
- Discretionary – expected but not yet contracted e.g. Change Requests (CRs) raised but not yet contractually, contingency, etc.

The following sections set out some key assumptions made when setting the RIGs forecast.

2.1. Internal costs

2.1.1. Payroll, non-payroll, and recruitment

These three General Ledger (GL) codes[2] fall under what we call 'resource' costs. We have included forecasts[3] for these categories for all future years, detailed justification has been provided for RY25/26, RY26/27 and RY27/28 only.

2.1.2. Internal services

Internal services are largely contractual in nature and represent certain services sourced from our parent company Capita. Wherever possible, we have estimated cost forecasts based on the known contracted values and end date. There are some contracted services which we know will be required beyond the contract end date. For those, we have produced estimates based on a cost trend of the existing services.

[1] Price Control Information is defined as the Specified Information contained in any RIGs issued by the Authority under Condition 33 as is required to be reported to the Authority in accordance with this condition, in such manner, to such extent, and subject to such further definition as may be set out in those RIGs.
[2] Data Communications Company (DCC): Regulatory Instructions and Guidance 2025 | Ofgem.
[3] These are forecast that do not influence or guide the future Ex-Ante forecasts.

2.1.3. IT services

IT services are forecasted in a similar manner to external and internal services in that we base estimates on existing contracted values and end dates, or extensions where we know services will be required beyond the contract end date. There is a variable element to this, which is based on headcount.

2.1.4. Accommodation

Accommodation forecast costs are based on annual contract values and contract terms. All accommodation costs are recognised in the Corporate Management cost centre.

2.1.5. All other costs

External services and service management costs are based on contracts with specific start, end dates, and values. Therefore, we have forecasted to contract end date, distributing the cost evenly if there are no milestone payments or when it crosses over multiple regulatory years. There are some small values against the 'office sundry' category such as subscriptions.

2.1.6. Additional baseline and new scope

In this year's submission, there are no new items under either 'additional baseline' or 'new scope' (see tab 5 of the main RIGs file).

2.2. External costs

2.2.1. Set-up costs

Where set-up costs extend beyond the length of the DCC Licence they have not been included in the RIGs. This means that a CAN value or total contract value may be higher than the total included in the RIGs for the related CR or contract.

User Integration Testing (UIT) charges and Communication Hub (CH) asset and maintenance charges are shown as invoiced in the respective lines in baseline. Variations comprising of CRs, indexation impact, and volume changes will be explained as part of the variance explanation.

As in previous years, financed set-up costs are reflected as they are invoiced, within finance tranches. These finance tranches may include multiple CRs and projects that have been delivered but are invoiced in accordance with the financing tranche payment schedule. In Annex 3 of the RIGs, this is reflected as single lines – e.g. Financing Tranche 1. Explanations in the narrative will be provided based on material CRs and projects within these categories. To provide more detail on the components of the financing tranches, supplementary schedules have been provided alongside the RIGs submission.

2.2.2. Fixed operational charges or enduring costs

Where these costs extend beyond the length of the DCC Licence they have not been included in the RIGs. This means that a CAN value or total contract value may be higher than the total included in the RIGs for the related CR or contract.

All fixed operational charges billed as a single value for fixed operational charge each month from the supplier are shown in the 'fixed operational charges' or 'enduring costs' line in baseline external costs. Variances to Licence Application Business Plan (LABP) and prior year regulatory reporting, which will comprise new CRs and indexation, will be explained as part of the variance explanation. Indexation is not shown separately in the RIGs; it is explained in Section 6.4 of this document.

3. RIGs worksheet 3: the correction factor

Q1: Please provide associated commentary regarding the Correction Factor. This should include commentary regarding significant components of the Correction Factor (such as prudent budget, credits from service provider performance, unclaimed service provider incentive payments, related interest received).

The cumulative correction factor as at the end of RY25/26 is £21.92m. This is the first time the cumulative position has been positive, driven by over-recovery in RY25/26, where Regulated Revenue exceeded Allowed Revenue, more than offsetting the cumulative under-recovery from prior years. This correction factor is the total variance between Regulated Revenue and Allowed Revenue for each Regulatory Year, adjusted for indexation, as shown in the table below. Variations for all prior years have been explained in prior year submissions; therefore, we have focussed the explanation on the variance for RY25/26.

	RY13/14	RY14/15	RY15/16	RY16/17	RY17/18	RY18/19	RY19/20	RY20/21	RY21/22	RY22/23	RY23/24	RY24/25	RY25/26
Regulated Revenue	19.5	44.8	115.643	241.209	257.924	403.647	518.434	642.496	563.861	608.612	667.199	686.452	797.787
Allowed Revenue	13.396	32.181	99.169	195.873	220.761	371.213	470.118	594.176	492.288	538.471	614.802	708.372	787.650
Regulated Revenue less Allowed Revenue	-	12.619	16.474	45.336	37.163	32.434	48.316	48.320	71.573	70.141	52.397	-21.920	10.137
Cumulative correction factor		-6.134	-12.682	-16.525	-45.497	-37.411	-32.666	-48.364	-48.413	-74.732	-73.666	-54.989	21.920

Table 1 - Variance between Regulated Revenue and Allowed Revenue, RY13/14 – RY25/26 (£m)

Table 2 below sets out the key components of the variance between Regulated Revenue and Allowed Revenue for RY25/26, which contributes to the correction factor.

	RY25/26
[redacted]	

Table 2 – Correction factor components RY25/26 (£m)

Regulated Revenue for RY25/26 comprises Fixed Charges (including Fixed CH Charges and Fixed Alt HAN Charges) invoiced to customers in accordance with the Charging Statement for RY25/26 and explicit charges invoiced to customers for specific additional products or services e.g. user gateway connections, remote test labs, Competent Independent Organisation (CIO) assessments, test hubs and interest accrued on cash balances in the year.

The main components driving a variance between Regulated Revenue and Allowed Revenue shown in the table above include:

- Slightly reduced revenue from stagnant meter numbers due to the cleansing of data-by-data providers;
- When we set charges in December of each year, they will be based on a forecast of meters installed in the following April. This is based on a rolling 12-month historic average. However, meter numbers can change significantly in-year, which can be difficult for DCC to predict as it is usually associated with the number of new homes being built in the year;

[4] Communications Hubs

- Explicit Charge revenue is challenging to forecast as explicit charge items are requested by customers as and when they are required.
- CH costs will depend on volume which depends on customer rollout profiles. These can vary significantly to what we include in our CH forecast models when setting charges.

3.1. The correction factor and its impact on RY25/26 charges

We use the correction factor to:

- return (or recover) any difference between Allowed Revenue and Regulated Revenue with respect to the prior Regulatory Years (which may include the prudent estimate); and
- to reflect any incurred costs disallowed by Ofgem.

Four categories of correction factors apply, they are:

- Main correction factor
- CH correction factor
- SECCo correction factor
- Alt HAN correction factor

These are separated as they apply to different charges payable by different customer types.

Under the standard correction factor process, any over/under-spend is returned/recovered from customers two years later; this is because all expenditure is subject to Price Control. All allowed expenditure for a given year is therefore confirmed almost a year after the end of that period and reflected in the following years charges[5].

4. RIGs worksheet 8: Regulated Revenue v statutory revenue

Q1: Where Regulated Revenue differs from revenue as presented in the statutory accounts, please provide an explanation of the divergence between these.

The revenue reported in the statutory accounts for the year ended 31 March 2026 was £587.9m. The Regulated Revenue for the same period was £797.8m.

	RY25/26
Regulated Revenue	797.787
[redacted]	[redacted]
Revenue reported in the statutory accounts	587.949

Table 3 – Variance between Regulated Revenue and statutory accounts revenue (£m)

[5] For example, under the standard process all allowed expenditure in PC25, RY24/25 (ending March 2025) was confirmed in March 2026, therefore it would have been reflected in RY26/27 charges therefore paid/recovered in full by March 2027.

The main contributors to the variance include:

- **Annual correction factor** – see Section 3 of this document.
- **Explicit and CH charges recognised on the balance sheet** – in the statutory accounts, these charges are accounted for on an agency basis which means that they are not reflected as a cost or revenue in the income statement, but on the balance sheet as a liability or asset instead. They are, however, recognised within the Regulated Revenue reported as part of the Price Control Information.
- **Net impact of milestone and finance charge accruals offset against invoicing for External costs and work in progress (WIP)** – DCC finances material set-up costs over several years to smooth charges to its customers. Those finance payments begin upon completion of relevant milestones. The statutory accounts include the full value of those milestones as and when they are achieved plus financing costs accrued in each month and the value of WIP not yet invoiced. Price Control Information, however, includes the monthly financed payments associated with those milestones as and when they are invoiced to DCC which include finance costs. The difference between those two values for RY25/26 is reflected in Table 3.
- **Depreciation of assets capitalised on the balance sheet** – this charge relates to assets which under IFRS must be capitalised as incurred rather than expensed. Such assets relate to leasehold improvements at the Manchester office (Brabazon House), Right of Use assets for leases held for the Manchester and London (Riverscape) offices and 4G Communication Hubs. The costs of these assets therefore do not appear as an expense in the statutory accounts in the year of purchase but instead are spread using a depreciation charge. The Price Control Information, however, reflects the costs incurred and invoiced to DCC in year.
- **Timing of recognition of Baseline Margin Adjustment (BMA)/External Contract Gain Share (ECGS)/disallowed costs in Annual Report vs Price Control** – the revenue reported in the statutory accounts reflects accruals for these items in the periods to which they relate. The Regulated Revenue reflects these costs in the Regulatory Year in which they can be charged to customers, in line with Ofgem's direction.

5. RIGs worksheet 9: cash-flow

5.1. Cash-flow

Q1: Please provide a supporting commentary of the Smart Meters Communications Licensee's monthly cash flow balances

5.1.1. Factors impacting cash-flow

The monthly cash-flow balances are driven by the following factors with respect to cash payments and receipts:

- Invoices to SEC Parties are charged on the third working day of each month following the charging period. Payments are received within five working days following the receipt of the invoice.
- Internal Costs, Baseline Margin (ended August 2025) and corporate overhead are invoiced by CBSL (Capita Business Services Limited) to DCC monthly, in arrears. Cash settlement is usually made in the month following receipt of the invoice.
- VAT is charged on invoices at 20 per cent, and payments to HMRC are due quarterly in February, May, August and November.
- Pass-Through Costs to SECCo Ltd and Alt HAN Co Ltd for the year are based on their respective budgets and are normally charged in 12 equal monthly instalments. Invoices are received monthly in arrears, and payment terms are 30 days and 10 days respectively. For Saco Ltd, after the year-end, a balancing credit or debit is calculated and issued.

- DCC pays invoices for Internal, External and Pass-Through Costs within 30 days after invoice, depending on the payment terms.

5.2. Cash balances in RY25/26

At the end of March 2026, our closing cash balance was £[redacted] Of this, £[redacted] was credit cover held for customers and £[redacted] was available to cover liabilities due at the end of the year, including VAT payments, invoices due to suppliers and other Service Providers, and short-term accruals.

Table 4 shows the breakdown of month end cash balances in RY25/26 between the trading account and the credit cover deposit account.

£m	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
Trading Account	[redacted]											
Credit Cover												
Cash Balance												

Table 4 – Breakdown of month end cash balances in RY25/26

5.2.1. Forecast cash balances in RY26/27

The forecast of the Trading Account for the RY26/27 presents a cash balance of £[redacted] at the beginning of the financial year and with projections shown up to October 2026 in line with the business handover, at which point the balance is £[redacted]

£m	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27
Trading Account	[redacted]											

Table 5 – Breakdown of month end cash balances, RY26/27 (£m)

5.3. Liquidity Requirements

Q2: Please explain the operating liquidity requirements of the licensee's business. What are the factors impacting on peak business cash-flow requirements

It is very important that DCC provides predictable forecasts to its customers so that they can manage costs and cashflows ahead of time. Most of the receipts from customers are based on a fixed charge per meter and are set in advance; therefore, cash inflows are relatively consistent on a month-by-month basis. DCC's ability to remain liquid is dependent on the accuracy of its cost forecasting, which forms the basis of the advance charges to customers. DCC maintains a policy of charging enough to be able to meet its cost obligations without increasing charges in the year, in line with our Licence obligations. Where feasible we have returned funds to customers within the year as part of the final charging statement, amending monthly charges for the last 2 or 3 months of the year. This has been done in RY17/18, RY18/19, RY20/21, RY21/22, RY22/23, RY23/24, RY24/25 and RY25/26.

Several of DCC's costs have payment profiles that can be reasonably forecast across the course of the year. They are either made up of regular, fixed payment amounts, or they are known in advance. These cost elements include the following:

- Pass-Through Costs to SECCo Ltd are agreed in advance at the beginning of the year. The charge is normally spread across the year in 12 equal monthly instalments. At the end of the year, a balancing debit or credit amount is charged to DCC and is settled in the following Regulatory Year;

- The Baseline Margin in any given year is defined in the Licence and was therefore known in advance for the entirety of the original Licence term;
- Rent, rates and service charges are outlined in our lease agreements which are fixed for a set period, subject to inflation;
- Resource costs for permanent DCC staff can reasonably be estimated month on month. Costs for contractors and new resources are more difficult to forecast with certainty;
- An element of costs with Service Providers that are made up of fixed charge amounts; these costs are defined in their contracts. These can also include financing payments made either to FSPs or directly to banks.

The factors affecting DCC's peak cash-flow requirements are therefore driven by expenditure with less predictable or fluctuating payment profiles and values. These include:

- SMETS2 External Costs: Expenditure to our FSPs is based on contractual payments and represents DCC's largest cash outflow. Operational costs are stable with variability expected on the programme spend, most notably the two annual June and November releases.
- SMETS1: Expenditure on SMETS1 is now stable and is based on contract payments following go live.
- Network Evolution: Network Evolution covers a wide range of programmes focused on the successful roll out of the 4G mass roll out in summer 2025, reaching 1m 4G installation in a year since. The costs and timing for this programme are material. Both programme team and finance function continue to track spend against the programme forecasts.
- Resource costs: the timing of recruitment and volume of FTE can be impacted by any changes in key programmes. We tend to find that short-term FTE can been required for longer to support any additional activity required which was not known in sufficient detail at the beginning of the year.

5.4. Prudent Budgeting Arrangements

Q2: Please explain how prudent budgeting arrangements have been applied in managing the licensee's cash balances. Please provide supporting assumptions.

5.4.1. Management of cash balances

DCC does not aim to (and has not, to date) asked for additional funds from customers mid-way through a regulatory year. In fact, over the last few years, DCC took proactive steps to return cost savings to its customers earlier than it would have done through the correction factor mechanism. This was repeated in RY25/26 where we returned £55.1m to customers.

DCC's key step to prudent budgeting is the maintenance of a detailed cash-flow forecast, updated and reviewed monthly, with comparison to actuals, to determine the timing of significant cash inflows and outflows. DCC engages in a continuous, ongoing process of risk assessment and review with respect to cash outflows. This ensures that cash balances do not fall to levels that are too low at any point in time.

By the end of this regulatory year through the enhanced treasury processes DCC's cash balances have returned to operate within the healthy cash range. As mentioned above, DCC returned £55.1m of cash back to their customers. DCC is actively working with Ofgem to look at further cash management changes, this will enable the organisation to return additional cash to customers well ahead of the licence renewal.

Internal and External cost forecasts are prepared, challenged, and maintained by the Finance Business Partners (FBPs). They are reviewed on a quarterly basis as part of the DCC quarterly forecasting process (see further info below) and form the basis of indicative charging statement updates to customers. The management of the cash-flow forecasting process is further supported by the following activities:

- Bottom-up annual budget process that involves the challenge of all existing assumptions.

- Quarterly reforecasting and review process with the business, including all DCC internal budget owners and updates to our external service providers costs, programme costs, internal functions and passthrough costs.

The Board has the ultimate responsibility for assessing risk and making strategic cash-flow decisions. The overall process is in place to ensure that costs are challenged robustly to ensure that DCC only spends money where necessary and that it can justify as being economic and efficient in the overall delivery of DCC services.

How do we apply prudent budgeting arrangements?

The cash forecasting process is broadly based around three factors:

- Consideration of any commitments for the year ahead.
- Consideration of the revenue to be collected through the period.
- Opening and closing cash balances at the end of that period.

Understanding our commitments to forthcoming expenditure is therefore the key driver in understanding our required cash inflows, and thus, developing a prudent budget.

External costs

External costs make up the largest future cash commitments for DCC and, therefore, uncertainties in timing and volume with respect to these items have the most material impact on our cash-flow forecasting. The following specific assumptions are made with respect to cash outflows for External costs when preparing the monthly cash forecast data:

- The timing, value and profile of cash outflows are assumed to be in line with the current contracts with FSPs.
- The timing, value, and profile of cash outflows with respect to agreed contract changes are assumed to be in line with details outlined in the change authorisation notes, or in line with details provided directly from the FSPs via the commercial team.
- Where contract changes have not been approved, the value of the cash outflow is assumed to be in line with the latest Impact Assessment value received from the FSPs.
- For contract changes where an Impact Assessment is not yet available, a judgement is made to establish a 'rough order of magnitude' for the value of the contract change using information provided from the FSP. Where the FSP provides a range for the 'rough order of magnitude', we use the midpoint as the best estimate.
- Where the FSP cannot provide an early indication as to the magnitude of the change value, we use historic information for similar changes proposed, or values proposed for the same change by other Service Providers as a basis. One or more changes with a similar nature and magnitude are chosen as a benchmark.
- The Finance Business Partners work closely with the programme, design & assurance, and operational teams to understand the pipeline of activities they have identified as future spend. The relevant size and payment profile of these changes are analysed against existing changes and added to our forecast of future activities.

Internal Costs

The following specific assumptions are made with respect to cash-flows for Internal costs when preparing the monthly forecast data:

- The basis of cash flow forecasts for Internal costs is the budget set at the start of the year for each business area. The uncertainties around the delivery timetable and the changing timeline of the plan have a direct impact on Internal costs as teams review and amend their recruitment plans.

- Monthly financial performance review meetings are undertaken with budget owners. Any material costs that the budget owner is aware of but for which a business case is still outstanding will be included in the cash-flow forecast using the budget owners' most up-to-date cost and timing assumptions.
- Rent, rates and service charge cost information are based on amounts included in our lease agreements and is known to be charged monthly. Other accommodation costs associated with the maintenance of the building are estimated and included using historic data as a basis for any assumptions.
- For other internal or external services procured, we use values included in signed agreements, engagement letters or contracts. The assumption is that values will be the same amount where the engagement will be renewed on an ongoing basis. This would include recurrent costs such as audit fees.
- For IT contracts, fixed cost amounts are included in the cash-flow forecast based on original signed contracts. Time and materials costs are based on up-to-date models or current forecasts from the Service Provider, which are assessed by the project managers we have in place for each material project.
- As part of the quarterly reforecast, we review each cost centre for activities and validity of roles and activities in DCC. The cost centre managers are asked to take a strategic view on future direction of their departments and how it is working to deliver on DCC's main objectives. This is an exercise to challenge the assumptions and agree on a credible and realistic budget position for each area in DCC.

6. Specified information: supporting questions

This section responds to 6 of 16 of the supporting questions detailed in Section 9.2 to 9.17 of the RIGs guidance document. They are:

1. Definition of baseline (9.7)
2. New Scope project6 definitions (9.8)
3. Prudent estimate of Allowed Revenue (9.9)
4. Real Price Effects (9.14)
5. Income Statement (9.16)
6. Approach to materiality (9.17).

6.1. Definition of baseline (9.7)

Please provide a full definition of the requirements that the Licensee considers to be included in its reported and forecast Baseline Internal and External Costs. Please confirm that this definition of requirements has been used to report incurred and forecast Baseline costs in the current year regulatory reporting template.

The definition of the requirements that are included in Baseline Internal and External Costs are unchanged from the previous reporting year.

We can confirm that this definition of requirements has been used to report incurred and forecast Baseline costs in the RY25/26 regulatory reporting template.

[6] 'Project' in this context is not limited to 'Project' as defined in the Licence as work linked to a Baseline Margin Project Performance Adjustment Scheme.

6.2. New scope project definitions (9.8)

Please provide definitions and justification for any additional New Scope projects that were added to the reporting template in the current regulatory reporting year. Please explain how the project scope relates to the scope of Baseline activities and existing New Scope projects. Please provide explanations for the New Scope projects' forecast costs.

No New Scope projects were added to the RY25/26 regulatory reporting template.

6.3. Prudent estimate of Allowed Revenue (9.9)

Please detail the uncertainties, activities, assumptions, and any relevant modelling that has informed the prudent estimate of Allowed Revenue for the current reporting year and updated forecasts of Allowed Revenue prudent estimates for future regulatory reporting years. Please describe the steps that the Licensee has taken to manage its prudent estimates of Allowed Revenue efficiently

DCC must achieve a balance between raising charges in-year and collecting more cash from customers than required. Reasons why it may need to raise charges in-year may be due to assumptions being incorrect at the time of setting charges or new spend being required at short notice. However, it recognises that this can cause disruption and uncertainty for customers.

The sections below detail the uncertainties, activities, assumptions, any relevant modelling, and the steps taken to manage the prudent estimates of Allowed Revenue efficiently.

6.3.1. Uncertainties

There were significant uncertainties identified in relation to RY25/26 at the time of setting the Charging Statement. These included:

- Changes in assumptions underpinning CH Device Revenue forecasts, including overall volume and SBCH/DBCH/4GCH order split as well as the move from funding to finance of the 4G Comms Hub.
- The volume of SMETS1 meter migrations.

The uncertainties required DCC to perform analysis of the cost position over the future regulatory years (with their subsequent impact on cash requirements) based on different assumptions. As an ongoing initiative for cost transparency, we share and explain our assessment of the risks and opportunities to the forecast with customers in the Quarterly Finance Forum.

6.3.2. Activities

Smart DCC's quarterly forecasting process, introduced in RY22/23, is a simplified governance and approvals process by which any programme, operational and/or functional changes involving activities, financials and resources are identified and updated in Function/Programme business plans and forecasts. This process is the overarching governance and performance framework for Smart DCC, it is supported by existing governance structures but simplified with Exco being the one and only approval forum. The Annual Business Plan (ABP) forms part of the process in Q3.

The management of the prudent estimate of Allowed Revenue is further supported by the following activities to ensure costs are challenged by FBPs and by functional leads to ensure value for money for every pound spent.

- Monthly financial performance review meetings are undertaken by FBPs with budget owners. Costs incurred in the month and year to date are compared to the baseline costs, and explanations are obtained for variances. Budget owners have targets to maintain within their overall baseline, and they are challenged on how they will meet these to minimise the risk of over-spend.
- Furthermore, budget owners will also indicate if there are any material costs that they are aware of, but for which a business case is still outstanding. This information is then used in the updated forecast.

- The FBPs work closely with the Commercial team to understand the pipeline of change requests which have been raised, and prepare revised quarterly forecasts accordingly, which include the potential of the impact of material changes. This is compared to the baseline set for External costs. This assessment will inform the strategy adopted in negotiation with Service Providers, approving a change request and agreeing the timing of cash outflow.
- The FBPs engage with Programme Directors and Project Managers for IT services to form the best view of expected costs in the year for contracts which are not fixed price.
- As part of the quarterly reforecasting cycle, we review each cost centre and activity to assess the validity of roles and activities in DCC. The cost centre managers are asked to take a strategic view on future direction of their departments and how it is working to deliver on DCC's main objectives. This is an exercise to challenge the assumptions and agree on a viable budget position for each area in DCC. This process is repeated on a quarterly basis as part of the DCC's move to increased business accuracy.

6.3.3. Forecast modelling and assumptions

Allowed Revenue for any year is first set in the Charging Statement for a particular regulatory year. This prudent estimate of Allowed Revenue is built up from our budgeting and forecasting of cash-flow, resulting in two models: an Internal cost model; and an External cost model. These models are maintained independently and consolidated to provide the total estimated Allowed Revenue, which forms the budget for that Regulatory Year.

Internal costs

Payroll, non-payroll, and recruitment

- For each existing resource, it is assumed that their cost will remain constant, allowing for any salary increases and bonus accruals.
- For new resource, assumptions about the volume and cost are set during the budget process. The number of FTE has been justified and assessed, and the cost has been benchmarked by HR.
- Recruitment fees for new resource are assumed at [redacted] per cent, which is in line with the assumption in the LABP and the rate that is charged by Capita Internal Resourcing.
- Car allowance benefit is assumed at [redacted] per cent (capped at £[redacted] which is in line with Capita benefits employees obtain.
- Pension contribution is assumed at an average of [redacted] per cent per FTE, the maximum available being [redacted] per cent.

External and internal services

- Provision of a service for which a longer-term contract is in place with fixed prices is estimated at the price stipulated in the contract and the estimated dates in the contract at which payments will be made, for example, the contracts for SMKI and Parse and Correlate.
- Provision of a service for which a contract is in place with time and materials as the basis is estimated by using an estimate of the number of days to provide the service and the day rates stipulated in the contract, with an additional percentage to allow for expenses. The percentage for expenses can vary depending on the contract. The number of days estimated is informed from previous activity that has been carried out of a similar nature or estimate information received from the Service Provider.
- In some cases, the Service Provider will share forecast models detailing their assumptions of the cost of providing the service over an extended period.
- Where a service has not yet been procured an approximation is made of the cost by the relevant budget owner requiring the service or project manager managing the service. This estimate may be

informed from quotes already received, early estimates from potential suppliers or knowledge and previous experience of a reasonable cost for the service.

Accommodation for the London office (Riverscape):

- Rent is £[redacted] p.a.
- Service charge is £[redacted] p.a.
- Rates are £[redacted] p.a.
- Insurance is £[redacted] p.a.

Accommodation for the Manchester office (Brabazon House):

- Rent is £[redacted] p.a. (note, there is a [redacted]-month rent free period, first instalment will be paid at the end of Jun26)
- Service charge is £[redacted] p.a.
- Rates are £[redacted] p.a.
- Insurance is £[redacted] p.a. [redacted]

External Costs

- The timing, value and profile of cash outflows are assumed to be in line with baseline contracts with FSPs.
- The timing, value, and profile of cash outflows with respect to agreed contract changes are assumed to be in line with details outlined in the Change Authorisation Notes, or in line with details provided directly from the FSPs via the Commercial team.
- Where contract changes have not been approved, the value of the cash outflow is assumed to be in line with the latest Impact Assessment value or if applicable, latest estimates provided by the Commercial team.
- For contract changes where an Impact Assessment is not yet available, a judgement is made to establish a 'rough order of magnitude' for the value of the contract change using information provided from the FSP. Where the FSP provides a range for the 'rough order of magnitude', we use the midpoint as the best estimate.
- Where the FSP cannot provide an early indication as to the magnitude of the change value, we use historic information for similar changes proposed, or values proposed for the same change by other Service Providers as a basis. One or more changes with a similar nature and magnitude are chosen as a benchmark.
- All cost estimates provided by the FSP are challenged robustly by the Supply Chain management team, so we ensure that we obtain value for money and reduce costs wherever possible.
- It is planned that there will be two code releases per year going forward, planned for June and November.

6.3.4. Steps taken to manage prudent estimates of Allowed Revenue efficiently

DCC is entitled to include a 'prudent estimate' line in the Charging Statement up to the end of RY25/26 in accordance with Licence Condition 36.5 to ensure that the Service Charges they apply for in the relevant regulatory year will not need to be amended in the course of that year except in response to a reasonably unlikely contingency. This requires DCC to consider the risk associated with its costs at the time the Charging Statement is set.

Due to the improvements made in forecasting processes and the improved understanding of uncertainties, this allowed DCC to confirm its Charging Statement for RY25/26 without the need to include a 'prudent

estimate' and still remain within the 105% Penalty Interest threshold. Forecasting has improved significantly, with the delta between Regulated Revenue and Allowed Revenue now at just 1%, the closest it has ever been.

DCC manages its prudent estimate of Allowed Revenue efficiently through the following mechanisms:

- Maintaining a detailed forecast, updated, and reviewed monthly, with comparison to actuals and budget.
- Engaging in a continuous, ongoing process of risk assessment and review with respect to costs incurred against the budget, and expectation of future costs to arise. This allows us to track expenditure in relation to the budget and determine the likelihood of over or under-spend. This exercise is carried out in parallel with the review of our cash-flow forecast, which ensures we have an appropriate level of funds to allow for potential over-spend against the budget.

6.4. Real price effects (9.14)

Please report on the assumptions used to inflate costs over time so as to report the Regulatory Year in nominal terms. This report should include descriptions of how cost centres are inflated over time relative to economy-wide inflation as measured by the retail prices index (RPI). So, for example, if the Licensee's labour costs are indexed to CPI, please report the extent to which those labour costs have risen relative to the previous reporting year and the difference between this increase and RPI.

As is the case in each Regulatory Year, External Costs has been inflated because of the annual indexation set out within the FSP contracts. This is explained in more detail below.

Some Internal Costs have been impacted by inflation (primarily some contracts with external service providers) but the value of this has been immaterial.

This year, Resource Costs were subject to a 3.0 per cent inflationary increase from 1 April 2025.

6.4.1. External Costs

In our FSP contracts, charges for ongoing service are generally subject to annual indexation based on CPI. Principally these include:

- Rate Card - for additional change work
- Testing Services Charges - for UIT support
- Fixed Operational Charges
- Additional support charges for additional capability added to the contracts under change control, e.g. support to new environments
- Transactions Charges
- Network Availability Charges (CSP(N) only)
- Catalogue Services Communication Hubs Asset Charges (CSP's only)
- Comms Hub Maintenance Charges (CSP's only)

The FSP contracts define how indexation should be calculated and to which cost types it is applicable. Indexation can be applied on the anniversary of the signature date of each contract.

Indexation is calculated as:

$$amount\ or\ sum \times \left(\frac{index_o}{index_d}\right)$$

Where:

- $index_o$ is the value of CPI published or determined with respect to the period immediately preceding 1 April in each contract year i.e. the year that precedes the year in which the amount or sum falls due.
- $index_d$ is the value of CPI on the commencement date of the contract.

In RY25/26, the indexation value calculated was the same for each FSP:

$$\left(\frac{136.5}{99.1}\right) = 1.3774$$

- $index_o$ at March 2025 = 136.5
- $index_d$ at signature date in September 2013 = 99.1
- Calculated indexation rate = 37.74 per cent

The way this indexation percentage is applied to each FSP contract is agreed with the FSP as part of the change request.

The impact of indexation on baseline contract values and any changes that had been authorised prior to that date is reflected in the External Costs reported in the RIGs.

6.4.2. Internal Costs - resource costs

Our labour costs are reviewed using RPI as the basis annually. Increase in labour costs due to RPI occurs once a year in April if approved by the Remuneration Committee.

The Licence dictates a maximum pay award based on a set formula. This is based on the average RPI over the prior 6 months. The Committee has the ability to set a maximum below this amount. In 2025, this was set at 3% (versus maximum 3.4%).

Any annual increase in salaries is at the discretion of the Committee.

6.4.3. Baseline Margin indexation

The main RIGs template contains an indexation series which is applied to the BM values to convert between nominal prices (which our application and the subsequent award are measured in) and real 2013/14 prices (which Ofgem uses to compare to the original Licence Award). In December 2023, Ofgem decided to change the DCC BM inflation index from RPI to CPI-H from RY24/25 onwards.

6.5. Income Statement (9.16)

Please explain any variance between Allowed Revenue and amended Regulated Revenue as shown in Sheet 8.

The Regulated Revenue for RY25/26 was £797.787m. The Allowed Revenue (costs) for the same period was £787.650m.

This variance is explained in Section 3 of this document.

6.6. Approach to materiality (9.17)

Please explain how and why DCC has selected materiality thresholds to apply to its cost justifications. Please include an explanation of what proportion of DCC's cost base falls below DCC's materiality thresholds (i.e. how much cost does DCC consider to be "immaterial").

DCC considers it appropriate to focus resource and attention on those key cost justifications where there is material departure from the expected activity and cost outcome, this is to ensure that we can fully articulate the benefits to our customers of significant cost changes and clearly demonstrate value for money. Where activity levels and costs are broadly in line with expected outcomes and there is no material

financial variance then we would seek to apply a materiality threshold to ensure our focus and resource was directed to those areas which have more value and relevance for our customers.

DCC considers the appropriateness of the approach to materiality each year to ensure it supports the achievements of the objectives above and on that basis, we've decided to maintain our approach at the same thresholds as last year's submission. For Internal Costs, any variance above £0.150m is considered material; for External Costs, any variance above £1.000m is considered material. When considered in aggregate, these thresholds represent -0.57% and -0.33% respectively of the total costs under review.

DCC obligations with respect to materiality

We have not changed our approach to materiality compared to last years' submission. For Internal Costs, any variance above £0.150m is considered material; for External Costs, any variance above £1.000m is considered material.

6.6.1. How much of our cost is 'immaterial'?

External Costs

(0.53) per cent of the External Costs incurred in RY25/26 are considered immaterial. This is set out below.

External Service Provider	Baseline - set-up costs	Baseline - operational costs	Baseline - performance related refunds	New scope	Total
DSP	[redacted]				
CSP - North					
CSP - Central					
CSP - South					
S1SP_1					
S1_CSP_1					
S1SP_2					
S1_CSP_2					
S1SP_3a					
S1SP_3b					
S1_DCOa					
S1_DCOb					
ECoS hosting and managed service					
ECoS application build					
S1_DCOc					
TAF					
CN&N CI					
CH&N Device Manager					
CH&N CH					
CH&N WAN					
CH&N integration assurance					
CH&N - Azure Subscription Billing					
FSM SP					
DSP SI					
DSP Mainframe					
DSP Network					
DSP DUIS					
PKI-E					

S1SP_3c	[redacted]				
Other external costs					
Total					

Table 6 – Immaterial External Cost variance, RY25/26 (£m)

Internal Costs

(0.63) per cent of the Internal Costs variance is considered immaterial. This is set out in the table below:

	C. Mgt	Commercial	D&A	Finance	Industry	Ops	Prog	Security	SMETS1	Network Evo	ECoS	MHHS	Virtual WAN	Future Connectivity	Total
PR	[redacted]														
NP															
RC															
AC															
ES															
IS															
SM															
TR															
IT															
OS															
Total															

Table 7 – Immaterial Internal Cost variance, RY25/26 (£m)6F7

7. Penalty Interest

In accordance with the formula included in Ofgem's final decision on the DCC penalty interest rate, we have calculated the proportion of Regulated Revenue to Allowed Revenue as:

Regulated Revenue (£m)	
Regulated Revenue (£m)	**797.787**
Allowed Revenue (£m)	**787.650**
Difference (£m)	**10.137**
Proportion (%)	**101%**
Threshold (%)	**105%**

Table 8 – Penalty interest, RY25/26 (£m)

As the proportion is within the threshold, no further explanation is required.

[7] Values are shown to 3d.p. Therefore, any value greater than zero but less than £1,000 will appear as 0.000.