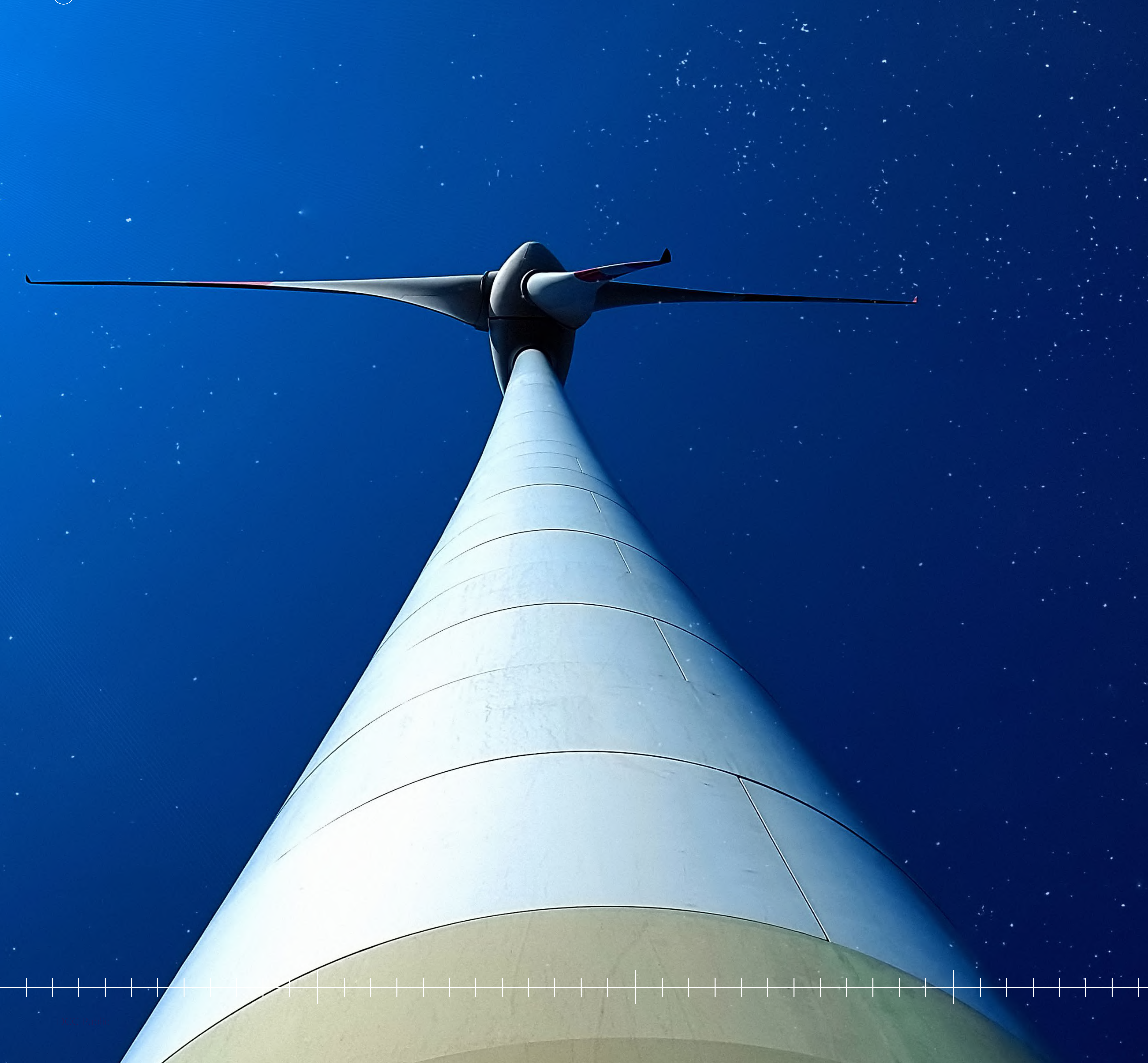
Data Communications Company

Annual Report 2022

Smart DCC Limited
Annual Report including the
Regulatory Financial Statements
Year ended 31 March 2022
Registration number
08641679



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1. Chairman's foreword

Welcome to the Data Communications Company's (DCC) Annual Report and Accounts for the year ending March 2022.

The DCC network is at the intersection of the energy sector and telecommunications. It forms the digital spine of Britain's energy system. DCC is a key enabler in the journey to Net Zero, driven by its purpose to make Britain more connected so that we all lead smarter, greener lives.

Inevitably, the smart meter roll-out has proved to be a highly dynamic task which has seen the programme develop and new responsibilities and requirements added. Additional capability requirements include more sophisticated cyber security standards, and the migration and integration of millions of first-generation (SMETS1) smart meters onto the centralised network.

What we see now emerging, however, is a great British success story in energy. The DCC 'wide area network', which covers 99.3% of properties in Britain, is operating at scale, with more than 21 million meters on the network and 12.6 million homes with smart capability[1]. By a conservative calculation this equates to at least 600,000 tonnes of carbon emissions being saved per annum through consumer behaviour, a better understanding of usage across the sector for the nation's generators and energy distributors, and more effective use of renewables. During the next financial year more than half of homes in Britain will be smart. We recently published data showing that smart meter take-up in some localities is starting to surpass 60% of households.

Strong collaboration between all parts of the Smart Metering Implementation Programme has been the catalyst for this success. Energy retailers, Distribution Network Operators (DNOs), the Government, the regulator, Smart Energy GB and industry bodies have joined forces to the benefit of consumers and Britain as a whole. This was evidenced most powerfully when the programme recovered quickly from the first COVID-19 lockdown in 2020, restoring and maintaining an impressive pace of change and delivery over the course of the rest of the pandemic.

Focusing specifically on the last financial year, there have been some big achievements. Resolving the issue of SMETS1 meters losing smart functionality after a consumer switches supplier has been a hugely complicated technical challenge, with thousands of hardware and software combinations to contend with. The good news is that almost 9 million of these meters have now been connected 'over the air' and are fully operational on the DCC network, with consumers retaining their smart functionality if they switch supplier.

The current economic situation is having a serious impact on people in Britain. Energy bills have risen dramatically as a result of the resumption of activity after COVID-19, and war in Europe. Forecasts show inflation going up perhaps to 11% at the end of 2022 and gradually dropping off over the course of 2023.

Due to the difficult energy market, levels of energy switching have fallen. The DCC has however, continued to deliver the Faster Switching programme, a major technological improvement that will enable consumers to change their energy supplier seamlessly, overnight. Once the market is less challenged and becomes competitive again, this enhanced technology will enable consumers to switch quickly and smoothly between suppliers in order to obtain the best available tariff.

Operationally we have been focusing on improving performance in the North region. At the end of the financial year we are achieving a 98.3% success rate for firmware downloads onto communications hubs, putting the North on a par with the other two regions. This is a significant improvement to previous performance. The network is also now carrying around one billion messages a month, far more than originally forecast and six times the number it was two years ago. DCC will continue to maintain this focus to provide good service levels for our customers.

In line with our strategy, we continue to develop the culture and capability of the DCC. Part of this is to ensure that every colleague's overriding priority is serving our customers and delivering the core smart meter roll-out. To this end we have initiated a new Business Accuracy programme, to give the energy industry a more granular forecast of the money we spend and the activity it funds over the course of each financial year. This provides more transparency and drives the principle that the DCC should be a value-for-money organisation.

Like many organisations, the DCC is transitioning to new ways of working in a post-Covid world. During the last two years there have been long periods when colleagues have not seen each other face-to-face that often, teams have not been all together in one place, and we have transitioned to having more meetings by video-conferencing. During this time our employee net promoter score has reduced from +17 to -20. This is a big opportunity for us to make the DCC a great place to work and we're placing a huge focus on it. We are tackling it head on with plans to support managers in the business to lead teams well and ensure great collaboration across the business. I look forward to updating you on our progress next year.

Aside from our core work we have also progressed, in a modest way and in consultation with customers, the DCC's potential to deliver further public benefit with the national asset that is the secure data network. The focus is on extending our contribution, and driving even greater value from the consumer funded DCC network, by helping the industry further digitalise elements of the energy network – examples include providing a secure, standardised platform for EV charging in a private setting, or demand-side capabilities for future energy-intensive products and services in the home. Over the last year we have built a scaled down emulator of the network called "DCC Boxed" which allows customers, developers and innovators to experiment with our reach and capabilities. Interest in this has been high, particularly from the energy industry, and I look forward to reporting back on this in future years. This is not about a lack of focus; it is about working collaboratively to maximise benefits whilst continuing to deliver against our core commitments and purpose.

I wish to thank everyone involved in the smart metering programme for their dedication to this roll-out over the last year. We now have a system operating at scale nationwide and making a huge contribution to the fight against climate change. This is the fruit of the close collaboration and strong relationships we have built together across the energy industry.

Richard McCarthy CBE,
Chairman

[1] Data correct as at July 2022

2. Key performance indicators[2]

Financial

Statutory reported costs

2022	2021
£440.3m	£442.1m

Delivering within budget
(Spend compared to charging statement)

2022	2021
£493.6m vs £612.8m	£600.1m vs £618m

Operational

SMETS2 life to date installations

2022	2021
11,179,442	7,154,900

SMETS1 life to date installations

2022	2021
8,279,013	3,871,410

Service provision performance[3]

2022	2021
94.3%	100%

Customer Effort Score

2022	2021
5.7/7	5.4/7

Employee Net Promoter Score (eNPS)

2022	2021
-20	+17

Our network's growth in the year

SMETS1:

+4,460,280
connected to our network

Cumulative total[2]
8,279,013

Best month: **688k** installs in **August 2021**

SMETS2:

+4,097,801
installed onto our network

Cumulative total[2]
11,179,442

Best month: **390k** installs in **June 2021**

Total Connections:

+8,558,081
total added to network

Cumulative total[2]
19,458,455

Best month: **1m** installs in **August 2021**

[2] As at 31 March 2022
[3] This reflects our performance against service provision measures in the Operational Performance Regime (OPR)

DCC Public

3. Our business model and strategy

The DCC is a private company, a subsidiary of Capita plc, licensed by the Government and regulated by the energy regulator Ofgem to connect smart meters in homes and small businesses across Great Britain to a single secure, digital network. We support the roll-out of second-generation (SMETS2) smart meters, as well as the migration of existing first-generation (SMETS1) meters onto our network.

What is the DCC?

The Data Communications Company (DCC) is Britain's digital energy spine, supporting the transformation of the energy system

DCC's unique position

Public benefit
Improved understanding of energy consumption

Scale
53m smart meters in 30m homes and businesses

Reach
Nationwide connectivity with 99.3%+ coverage

Security
A trusted data and connectivity partner

Platform for reuse

Our platform can be harnessed for more social good:

- EV charging
- Reducing carbon footprint
- Addressing fuel poverty
- Providing cleaner air
- Saving energy
- Energy efficiency improvements

Energy consumers benefit from having their meter connected to the DCC network as it allows them to switch suppliers without the risk of losing smart capability, enables time-of-use tariffs, and provides real-time data on network performance for DNOs. This empowers consumers to take control of their energy usage, which in turn will help Britain to achieve Net Zero by 2050. In addition, other service providers can use the network as the foundation for new and innovative services, such as dynamic time-of-use tariffs and the active management of domestic demand.

Operating the DCC network generates a range of system data such as descriptions and timings of transactions. We believe that universal sharing of this data, in line with the principles laid out in the Government's National Data Strategy, can help the industry to develop new business models and propositions designed to tackle the social challenges of today, including the drive to reach Net Zero.

Our providers

DXC Technology, Vodafone, BT, Capgemini, CGI, Arqiva, Critical Software, Virgin Media O2, Capita

Key technologies

The DCC is well positioned as the major technology enabler to the energy system.

2G	2G/3G networks are in use across Great Britain
4G	The introduction of 4G LTE cat 1 networks, means DCC will modernise its communications provisions
Radio	Low speed radio network, 426mhz, un-licenced spectrum Northern GB only
Mesh	Mesh Comms Hubs are installed in a mix of homes to provide wider coverage
Zigbee	ZigBee SE, used to provide home area network

"DCC is a secure critical national infrastructure exemplar."

Ciaran Martin, former CEO, NCSC

At scale the DCC will support

- **53 million** meters
- **70 million** messages per day
- **100 million +** connected devices
- **99.3%** Premises covered
- **Supporting 250,000** installations per week
- **30 million** homes/small businesses

DCC Public

How the DCC network connects

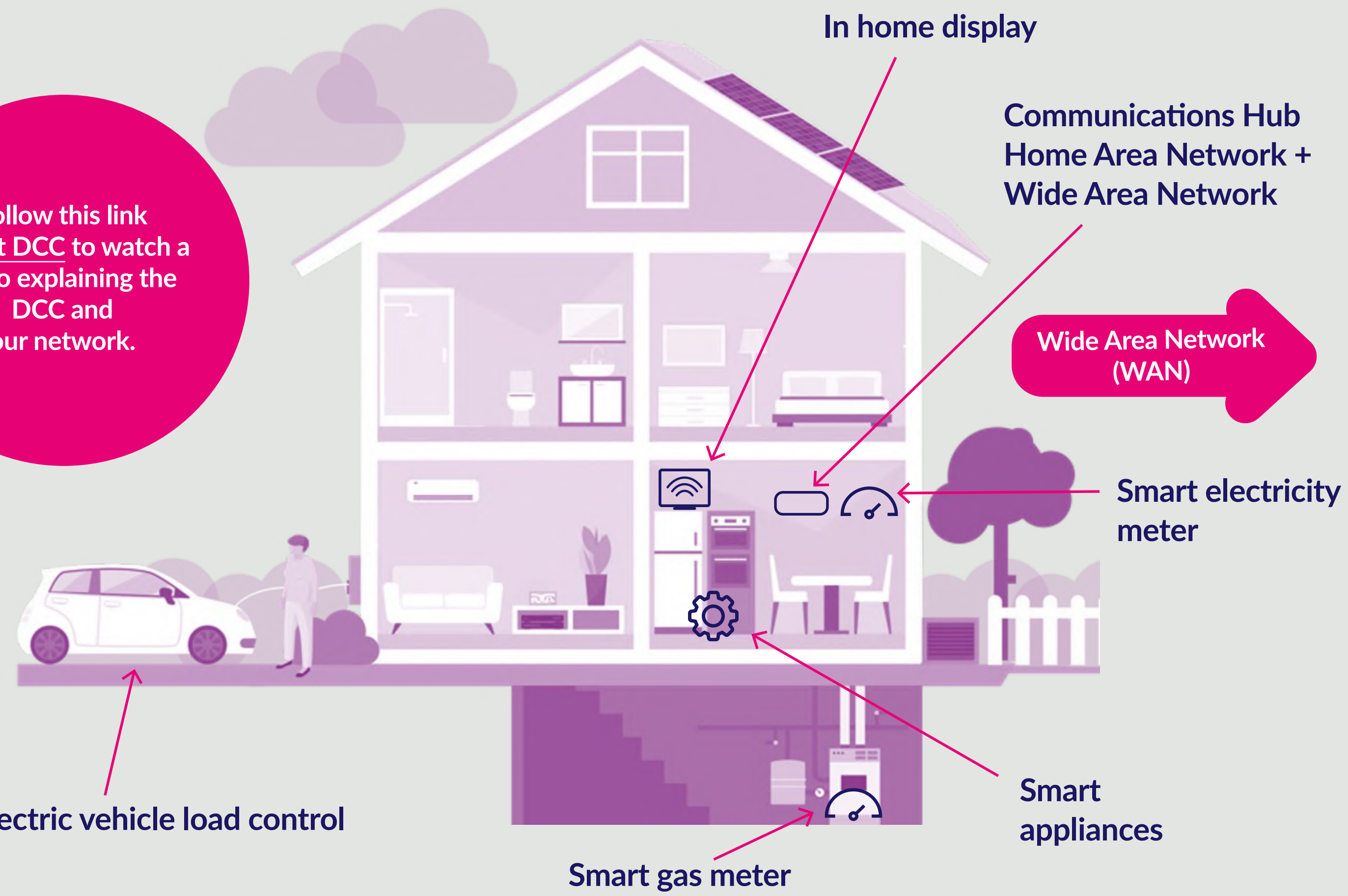
We design, procure, develop, secure and operate Great Britain's communications network to support smart meters. We connect homes and businesses to a single, secure network of digital smart meters, enabling Great Britain to make the best use of renewable energy.

Empowering consumers across the energy system

We are working with Ofgem to deliver and operate a faster and more reliable Central Switching Service, which will enable energy consumers to switch energy supplier on the next working day. In addition, we are playing a major role in the delivery of domestic half-hourly settlement, which will enable innovative time-of-use tariffs.

The smart energy home

Follow this link [About DCC](#) to watch a video explaining the DCC and our network.

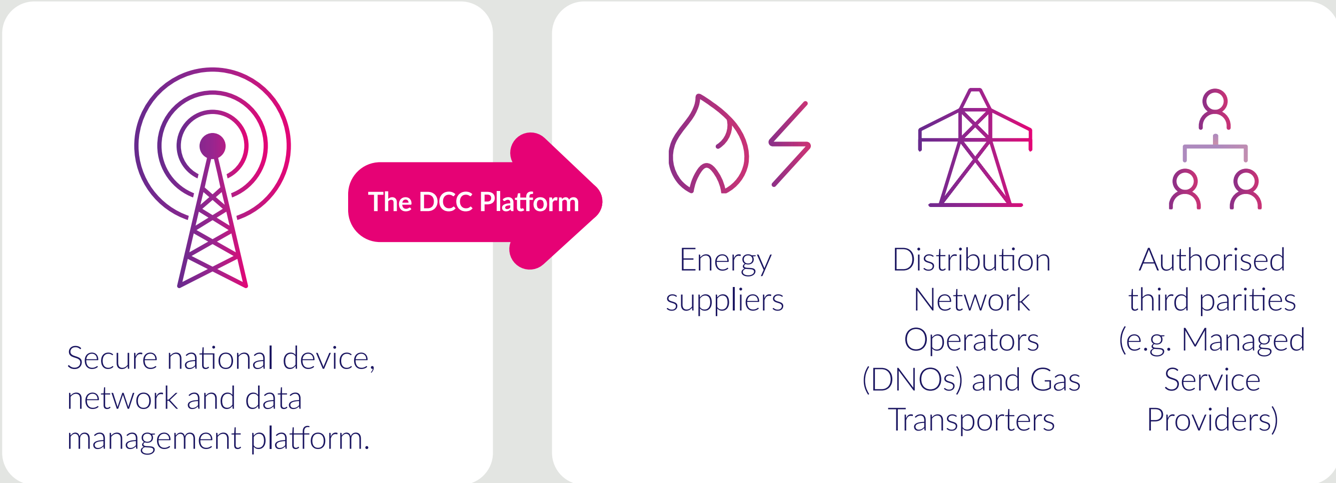


Two-way data transfer network

Secure standardised connection with nation wide coverage.

The energy industry

We provide secure connections to the energy industry (including provisioning, monitoring and billing).



Our network provides greater reach than mobile phones, digital terrestrial TV and superfast broadband combined, and will bring the benefits of smart meters to homes and businesses.

Our work means the energy industry has a real-time view of consumption, allowing it to optimise energy generation and storage, and smooth the peaks and troughs.

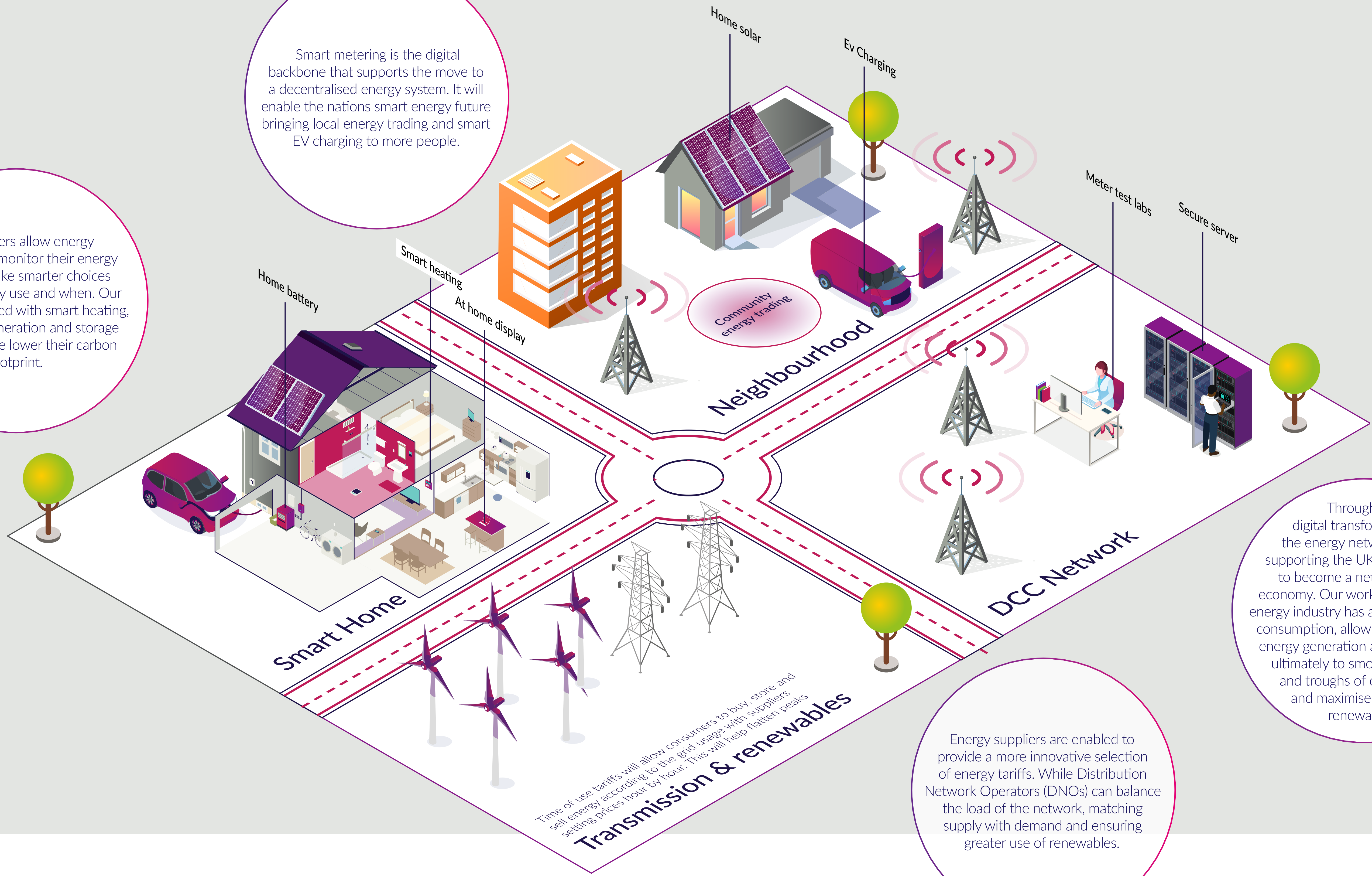
Statistics as of 19 July 2022

- **21,268,543** Total smart meters connected
- **12,917,070** Connected homes
- **53,814,487** Connected devices
- **969,983,691** Messages sent monthly
- **402,291** Energy switches in past month (involving smart meters on the DCC network)
- **618,591** tonnes CO2 emissions saved

Helping to facilitate a net zero carbon future

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

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



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

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

Our strategy

As the energy market is transformed through decarbonisation, decentralisation and digitalisation, DCC plays an important role as a secure digital spine for the GB energy system. The unrivalled reach and connectivity, when combined with the inherent security of our network, makes the DCC network a unique asset that can be leveraged by our customers, Government and Regulators.

We have set out a clear mission to digitise Britain's energy system, enabling innovation and re-use of the DCC network to drive decarbonisation and social good. We will achieve this by delivering against our strategic priorities.

In thinking about the DCC's position in the wider energy system, we have articulated our ambitions as follows:

Vision → **We believe in making Britain more connected, so we can all lead smarter, greener lives.**

Mission → **To digitise Britain's energy system, enabling innovation and re-use of the DCC network to drive decarbonisation and social good.**

Strategy → **Our strategy centres on the following five priorities, unchanged from last year's Business and Development Plan:**

Smart Meter roll-out

Support the successful smart meter roll-out across Great Britain by December 2025.

System Enhancement

Ensure that the DCC network remains fit for purpose and is able to respond to change and future demands.

Mandated Programmes

Successfully deliver the programmes over and above smart metering that are mandated by Government or the regulator.

Re-use

Identify and promote ways to re-use the DCC secure network with the objective of reducing charges for our customers, and support net zero.

Culture and Capability

Ensure DCC remains fit for purpose, delivers value for money with an agile and flexible workforce that can support the needs of our customers.

The Strategic Priorities were developed in consultation with our customers and reflect their feedback that we should focus on the delivery of our core mandated business and the maturing and improvement of these services once in operation.

DCC Public

Our strategy in action

Smart meter roll-out

Our primary responsibility remains the continued delivery of a stable, reliable, and secure smart metering platform with a coverage level and capacity that enables our customers to meet and exceed their roll-out targets. We have continued to scale and evolve our operations to ensure we provide the best service and have focused this year on improving core elements of our live service.

- **Customer relationship management** – through regular reviews with our customers we provide data and insights to help them improve their own performance.
- **Products and logistics** – we work closely with energy suppliers and the supply chain to ensure communication hub deliveries are maintained.
- **Service assurance** – we are progressing well with the introduction of ISO22301 (Business Resilience) along with core assurance policies that "bind together" the functions within DCC that contribute to the delivery of live services.
- **Supplier relationship management** – we have increased the bench strength of our internal teams who lead these relationships to drive improved engagement and communication with our suppliers, ensuring a 'one voice' approach.

Ensuring reliability and stability

During 2021/22 we have continued to work to improve operational stability in the North region, working with our infrastructure partner Arqiva, device vendors and our customers to resolve key performance issues.

We initiated a project with Arqiva ('Scaling and Optimisation') to review the current Communication Service Provider (CSP) North design against current and future evolved requirements and identify candidate solutions for detailed evaluation and discussion with customers.

As of March 2022, we are achieving 98.3% success rates for firmware downloads onto Communications Hubs (CHs), which represents a significant and sustained improvement in comparison to previous performance. We are now seeing comparable achievement of firmware downloads across the three CSP regions.

Key Performance Indicators

We measure our operational performance against the measures included in the OPR set out in the Licence. This year was a transition year for the updated scheme, which will fully come into effect from 2022/23. In addition to service provision measures, our performance will be assessed against two new measures: customer engagement and contract management. Both have a weighting of 15% and will be assessed against specific assessment criteria set by Ofgem. Final performance scores will be concluded through the price control process.[4]

The following reflects our reported performance in the financial year for service provision KPIs, which have a 70% weighting in the scheme:

	Service Provision (70%)					
Assessment metric	Incidents raised and resolved within target resolution time (%)	CHs delivered on time (%)	CHs accepted by service users (%)	CHs not faulty at installation (%)	Service responses delivered within applicable target response time (%)	Availability of 5 specified services (%)[5]
Target	90.1%	99.0%	99.9%	99.9%	99.0%	99.0%
Achieved	83.84%	100.0%	100.0%	99.96%	97.59%	99.94%
Overall achieved	94.3%					

[4] Further information about the OPR can be found on Ofgem's website
[5] DCC User Interface, Registration Data Interface, SMKI Repository Interface, SMKI Services Interface, Self-Service Interface

SMETS1

The SMETS1 Enrolment and Adoption Programme is a highly complex and technically challenging programme. It is enabling the migration of more than 16 million first-generation SMETS1 smart meters onto the DCC network where they will become fully interoperable between energy suppliers. This allows consumers to switch energy suppliers seamlessly without losing smart functionality and will also deliver significant savings to the industry.

Following the migration of the final cohort, our key focus during 2021/22 has been upgrading devices to new firmware where device related issues have been identified and ongoing deployments to stabilise the platform.

There are currently residual activities ongoing for devices that became eligible for migration after January 2022, which we are prioritising, and device migration will occur as soon as the retail suppliers make them available.

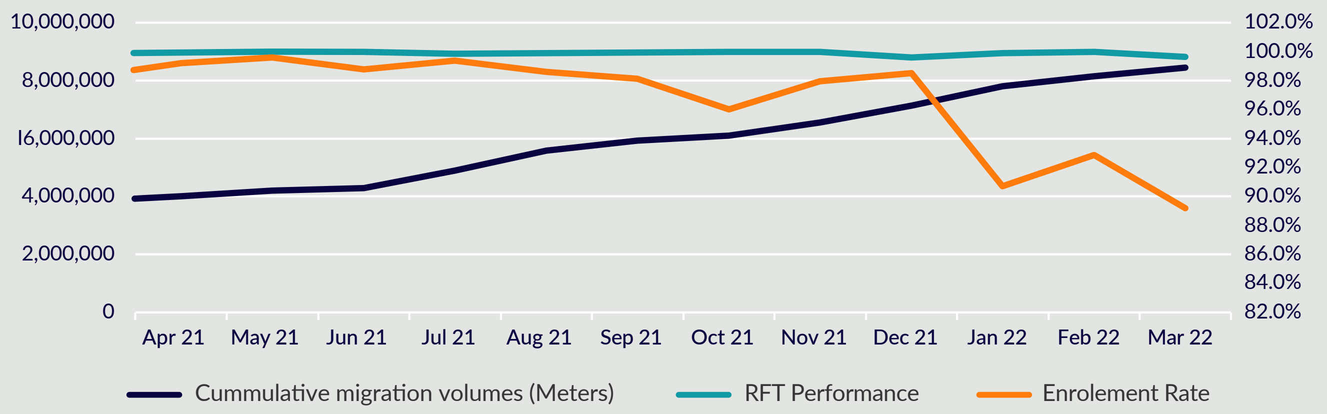
2021/22 Highlights

- 8.9m enrolled as at 31 March 2022 (3.9m as at 31 March 2021)
- Over 99% of migrations delivered 'right first time'
- Following migration:
  - 87% of all dormant meters have been made operational
  - 98% of active meters have been made operational
  - 77% of all mixed meters have been made operational

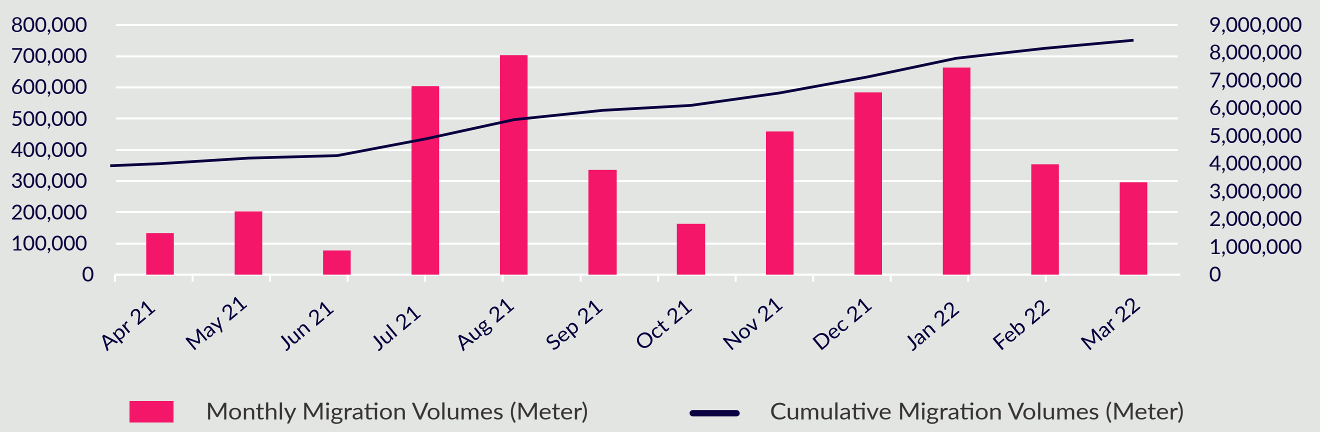
Migration performance

Our migration performance remains strong, with over 99% of migrations delivered 'right first time' (RFT). The maximum capacity for monthly migrations is approximately 800,000 meters. Over the year we migrated approximately 48% of this maximum capacity.

Migration performance



Monthly migration volumes



Other programmes

Enduring Change of Supplier (ECoS)

Enabling energy customers to change supplier easily and securely is one of the fundamental purposes of the smart metering roll-out and this is underpinned by DCC's change of supplier process. An essential component of the process is the replacement of certificates on devices (primarily meters) that identify the responsible supplier.

In 2021/22 we concluded the ECoS service provider procurement, with both the Application provider and Hosting and Service Management provider contracts being awarded by October 2021.

Following a review of the delivery plan and associated milestones the Go Live date for the programme has been moved from June 2022 to June 2023. This extension allows for the incorporation of learnings from previous programmes, minimises risk of unforeseen impact and provides more certainty to industry.

Distribution Network Operators (DNOs) Transformation

We have been working closely with the DNOs this year to delivery key improvements in operational data reporting and service issues prioritised at the start of the programme. DNOs now receive automated reporting packs consisting of customised operational data, as defined by the DNOs. We have also successfully resolved the majority of the 28 key service issues that were jointly prioritised at the start of the programme.

We have also ensured that DNO requirements are included in our Scaling and Optimisation project (refer to page 16).

Once delivered, the programme will allow DNOs to leverage DCC services as an enabler to deliver a cost-effective and quality service to their customers, improving fault response and assisting in targeting network investment.

Dual Band CHs (DBCHs)

Dual-Band CHs offer the capability to overcome physical challenges, such as weaker signal strength in buildings with thick walls. This improves the installation and commissioning process, eliminating unnecessary assessment visits, and reducing the number of failed installations resulting from the limitations of Single-Band CHs. The programme, which concluded in 2021/22 and is now live, will allow circa £30 million homes to be connected to the smart meter network that would otherwise have remained with traditional meters.

Great British Companion Specification (GBCS)

We are mandated by BEIS to develop, test, and deploy new firmware to all operational CHs in line with each update of GBCS. During the year, we have delivered compliance with the most recent updates of GBCS version 2.1 and 3.2 in the North (Arqiva's EDMI CH) and 3.2 in the South and Central regions (Telefonica's WNC and Toshiba CH).

System enhancement

Security

The DCC Security function has made significant advances in developing its capabilities throughout 2021/22 with a focus on becoming more effective and efficient. It is building on the following four pillars to increase the maturity across the function:

- Information Management
- People
- Supply Chain Visibility
- Security Operation Centre expansion and accreditation

Sitting above the four pillars and guiding our activity are our Threat-Led Strategy and Zero-Trust Approach.

Threat-Led Strategy and Zero-Trust Approach

Over the past two years DCC has implemented a threat-led strategy that ensures we understand threat actors better and can model threat scenarios more accurately, with a clearer idea of where attacks are likely to come from. We focus on monitoring threats that are pertinent to our sector and business and direct defences to protect against them. We apply this methodology across our supply chain, which helps to reduce risk to a level that is in line with our low-risk appetite and protects our best-in-class security reputation.

During 2021/22 the threat-led approach was consolidated and externally assessed through a "Red Team" exercise, where external security experts attempted to attack DCC's security defences. We also undertook extensive breach readiness testing, where we tested our ability to detect, react to, and contain attacks. The exercises showed a high degree of capability and preparedness against industry norms, which gives us confidence in the validity of our approach.

Initial foundations for a "Zero Trust" approach are now in place and have been incorporated into the new DCC Security Architecture Framework (SAF). The SAF utilises best practice principles outlined by the Cloud Security Alliance. In the coming years we will need to apply a Threat-Led and Zero Trust approach to new services (e.g. Switching) and re-contracted services as they go live. We will continue to seek improvements in our approach and evolve to meet emerging security threats.

Smart Energy Code (SEC) releases

The SEC is a multi-party agreement and defines the rights and obligations of relevant parties involved in the end-to-end management of smart metering. SEC Modifications are industry-wide requests for changes to our services and we are required to deliver two SEC System Releases each year in June and November.

In 2021 we raised a SEC Modification to implement recommendations to improve the SEC Section D Modification Process, following a SECAS led end-to-end review of the framework. The Modification will improve the efficiency and transparency of the process, as well as aligning it to match current working practices. The Modification is currently in the "Refinement" stage, and we will work closely with SECAS in the coming year to support its implementation.

A key lesson learned through numerous SEC Releases is that we must be more proactive with our contracted Service Providers in solution design. Through the Market Half-Hourly Settlement (MHHS) Programme we have engaged with our Service Providers much earlier on in the process, allowing us to resolve any emerging issues, and ensuring that we have technically accurate and value for money solutions. Given the successful collaboration on the MHHS we will implement this approach for future SEC and REC Releases.

Mandated Programmes

Faster and More Reliable Switching

As Ofgem's key delivery partner, we have built and will operate the Central Switching Service (CSS), which will provide the capability for energy consumers to switch energy supplier on a next-working day basis. Through the Switching programme we have managed the consolidation of 27 existing and new systems and the integration of around 200 licensed parties into a single core system, the CSS.

The delivery of this programme is a significant milestone in the transformation of the retail energy market. It will increase competition and provide a foundation for innovation leading to improved consumer value, experience, and engagement with the market.

The CSS is due to go-live in July 2022 and our focus over the past year has increasingly concerned the transition to live operations. There will be a period of "Hypercare", with DCC Operations and Service Providers on heightened readiness to respond proactively to any early in-life issues. Our priority will then be to provide a robust and continually improving service in the early years of the live operation.

Operational readiness and service transition

During the year we have enhanced our Target Operating Model (ToM) to support the new Switching service and meet our regulatory obligations contained in the Retail Energy Code (REC) v3. The ToM has been designed to allow the new Switching service to benefit from the knowledge, skills and experiences that DCC Operations has gained over recent years, whilst at the same time provide a logical separation between Switching and Smart Metering services.

To ensure that DCC is prepared for go-live, we have established a Switching Enterprise Transition (SET) programme. This is an internal transformation programme requiring those functions impacted by new REC v3 regulatory obligations to devise and implement necessary changes to the organisation, processes and tools to meet the associated REC requirements.

Re-use

Customer led system enhancements

Our customers have told us that they need a more agile development capability, alongside better designed and more cost-effective mechanisms to support change, new products, and propositions. We have been able to assist them through provision of facilities such as the smart meter Interoperability Checker and DCC Boxed, as well as through our extensive test lab facilities.

DCC Boxed

We built 'DCC Boxed' to improve the way we develop, test, and understand the solutions to various problems. Through development of this product, we realised it could also be used for the same purpose by our stakeholders and customers.

'DCC Boxed' is the DCC infrastructure, in the palm of your hand. It emulates the DCC network in a self-contained environment, without impacting or connecting to the live environment. It is a product that can be used anywhere to conduct multiple scenario analysis to meet a number of different user needs.

Following extensive engagement with customers and industry, we've learnt about the different ways in which this tool supports use cases, including:

- Enable testing of new versions of GBCS, potentially allowing early bug identification and resolution.
- Support smart metering training needs
- Demonstrate end-to-end communication with the SMIP
- Facilitate new devices and product testing
- Support analysis when assessing impact of changes on the end-to-end system

Further information about DCC Boxed can be found on our website.

Supporting Fuel Poor Households Through Data Integration and AI

The "Supporting fuel poor households through data integration and AI" project is part of Modernising Energy Data Applications (MEDapps), an Innovate UK funded research competition sponsored by BEIS and Ofgem, that forms part of the government's wider Modernising Energy Data Programme.

The aim of the public interest project is to use smart meter 'system data' and other cross-sectoral data to develop a prototype fuel poverty identification tool. The tool will be used to enable more efficient and effective deployment of energy efficiency measures to households in most need.

With Ofgem's consent, we have been working with a consortium of project partners to deliver the main output; Urban Tide's fuel poverty identification tool prototype (u:Smart ZERO). Key features include a map view with area-based rankings of fuel poverty, ability to overlay other data sets and forward predictions for fuel poverty risk (factoring in propensity for self-disconnection, seasonality and increasing energy pricing). Potential users are local authorities, social housing providers, energy suppliers, distribution networks and other utilities.

Early findings are very encouraging. The ability of the model to identify (anonymised) households at the risk of fuel poverty is proving 64% accurate across all risk levels and 100% accurate for those which UrbanTide's uSmart:ZERO model predict to be in the highest risk.

Culture and Capability

Business accuracy

The Business Accuracy programme was launched in 2021, focused on improvements to DCC's business planning and performance management framework. This is critical given the increasing volume and complexity of programme activity we are managing.

Programme benefits

- Improve transparency of reporting to ensure we can respond to customers' information needs.
- Better business planning will enable bringing in resource at the right time, quality and cost.
- Establishment of performance metrics that will enable us to focus on continuous improvement and build benchmarks that delivery value for money for our customers.
- Allow teams to effectively and efficiently access data and information that will improve collaboration and allow proactive management of workloads.

What we've achieved in 2021/22

- We have embedded an enhanced quarterly forecasting process, providing an improved view of future costs and cashflow.
- Improved governance and accountability for key investment decisions.
- Design of an improved planning and performance framework that will provide further accuracy and insight on our activities, to be implemented in 2022/23.

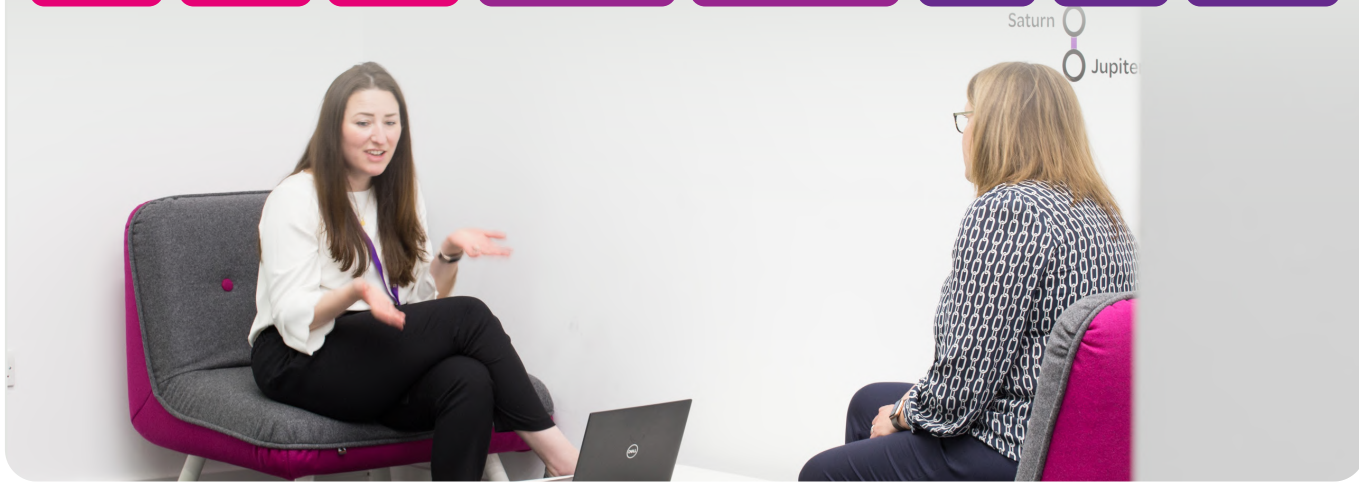
Our people

The people who work at the DCC are pivotal to the success of our business and delivering to our mandate.

This year we have developed a new People Strategy that ensures the DCC has the capability to deliver and builds the foundations to evolve and enhance our employee proposition and people experience.

Our People Strategy consists of three key people pillars that will be the enduring focus for the future.

Workforce & Capability	Culture Transformation	Employee Value Proposition
Ensuring DCC has the resources it needs to deliver its mandated activity	Creating an environment where people enjoy working and can be their best	Defining the unique benefits that make people want to join and stay working for the DCC
Resourcing Strategy; Talent & Succession; Leadership	Cultural ambition, Values & Behaviours; Diversity & Inclusion	Learning & Career; Rewards & Benefits; Working Environment



Workforce and Capability

The release of lockdown restrictions saw the appearance of one of the most competitive employment markets in over 20 years which has brought both talent attraction and retention challenges for many organisations, including the DCC.

We have responded to this by optimising our resourcing capability and understanding and acting upon the feedback of our colleagues.

During 2021/22, we improved our resourcing delivery by introducing a dedicated resourcing team to focus on recruitment. This brought improvements in our time-to-hire, direct hiring mix and supplied better support to our hiring managers. We have also launched a new DCC careers website that will strengthen our employer brand and acquire new talent.

We expect the job market to continue to be challenging over the next year and will continue to focus on how we optimise our talent acquisition approach. We have begun work to define a proactive workforce strategy, that will future-proof our critical skills and capabilities and look at opportunities to source talent through different routes e.g. partnership models.

During this year we have also made significant strides in our talent and succession agenda with several new appointments being made to the Executive Committee (ExCo) and Senior Leadership Team. We have also appointed a dedicated team to focus on Talent, Leadership and Learning to ensure we have a more proactive approach to developing the talent we need as a business.

Culture Transformation

We conduct quarterly 'Your Voice' Pulse surveys to welcome employee feedback about life in DCC. It's a formal measure of employee satisfaction which complements our other channels of communication, ensuring our people always have a say in how our business operates.

Our quarterly Pulse surveys gauge employees' opinions on our workplace, their relationship with their manager, the behaviours they observe, and how effectively opinions are listened to. It also includes the employee Net Promoter Score (eNPS) score, which is the traditional engagement rating about 'whether you'd recommend DCC as a great place to work.'

Like most companies during the coronavirus pandemic, there's been a marked impact on our sense of connectivity and community. We have seen a drop in our eNPS from +17 to -20. While this is disappointing, it has given us valuable insight to make improvements to how we work together in future.

Encouragingly, in our other core questions, we are still showing favourable results:

- 90% of colleagues feel clear about how their role contributes to DCC and its key audiences
- 75% of colleagues feel their manager inspires and develops them.
- 72% of colleagues are proud to work for DCC.

With DCC now operating at scale, we want to evolve our ways of working from those that typify a start-up business to more of a mature operating business.

As a result, we have embarked on a major programme of culture transformation which involves every individual in our business. We have conducted a comprehensive culture audit across DCC which has demonstrated a clear appetite for improved ways of working. Culture workshops which followed have shown an important level of alignment between leaders and employees on what the DCC culture is today and where we want it to be.

We've already set some powerful markers on this path as we move into the new financial year:

- Increasing the people and behaviours component of our corporate objective measures.
- Introducing leadership objectives to ensure line managers focus on people as well as task.
- Improving our office environment to help improve engagement and collaboration.

We have also continued to strengthen the ways in which we engage with employees and keep them up-to-date on matters that concern them and factors affecting the company's performance. Every month we have an 'all colleague' call, where ExCo members share key business updates, and employees can ask questions on any topic. In addition, regular updates are provided via all staff emails and on our intranet.

Diversity and inclusion

DCC has a commitment to building an inclusive workplace welcoming people of all backgrounds. Not just because it's the right thing to do, but because it makes the company stronger. We draw on differences in who we are and what we have experienced.

This year, we have worked to increase the quality of our diversity data, encouraging our employees to be counted so we can better understand our current levels of representation and opportunities to improve. The data below shows the gender diversity of our permanent employee base. Whilst we have seen marginal declines in the percentage of females at director and managerial levels, improvements have been made at senior management level.

- 50% ExCo members are women (2021:30%)
- 22% of our Director level staff are women (2021: 25%)
- 34% of our Senior Managers are women (2021: 32%)
- 29% of our Managers are women (2021: 36%)

We also increased our diversity and gender representation at ExCo level and gained a passionate sponsor for DE&I in our new Chief Commercial Officer Karin Meurk-Harvey – who has spoken at external conferences and events on women's issues and encouraging diversity in business. This has also led to the establishment of our own Women's Network.

We are pleased to see a marginal increase in our representation of Black (5%) and Minority Ethic (18%) colleagues in our workforce and we are working to develop this further in 2022/23 with enhanced focus on all areas of the employee journey, from talent attraction to in-role progression.

Our Diversity and Inclusion forum, with volunteer champions from around DCC, were instrumental in helping us to celebrate important calendar dates like Black History Month, Pride and all major religious festivals. We also launched an anti-racism module which is now a mandatory learning activity for all new and existing colleagues.

Diversity and Inclusion was a key consideration in our guest speakers throughout the year and we hosted educational and interactive events on topics which included anti-racism, menopause, and LBGTQ awareness.

We share the philosophy adopted by Parent company Capita in that we don't have specific policies for disabled persons. Instead, we ensure that the policies we do have enable our disabled employees to thrive and develop in the same way our non-disabled employees do. We have access to CHOIR, Capita's new Diversity and Inclusion Hub where the Capita Ability Network (CAN) have their own space for addressing and educating on all disability-related matters. We also have access to the Capita Reasonable Adjustments Procedure and Passport, both of which can be accessed through the internal People Hub and are aimed at ensuring we achieve the objective of enabling disabled employees to thrive and develop in the same way our non-disabled employees do.

Employee Value Proposition

During 2021, we placed significant focus on our reward and recognition agenda, in response to feedback we received from our colleagues.

A review of our Pay and Promotions Policy was undertaken to provide greater clarity for our people and streamline the approvals process, whilst maintaining necessary controls.

We also refreshed our salary ranges to have a clear link to the markets in which we operate. In the coming year we plan to keep this under review and to supplement the data where possible, with a view to continuously improving our understanding of a challenging labour market.

The 2022 pay and bonus award was successfully delivered with the support of the Board. This year's award recognised recent increases in the cost of living and 2 years of small or no pay awards. In doing this, we recognised colleagues for their contribution to DCC's success, undertook a thorough review of salaries relative to the market and made adjustments where individual salaries were not sufficiently comparable to the data.

Our digital recognition platform, Smart Stars, launched in January 2022, giving employees the ability to recognise their colleagues for their excellent contribution. Much of this recognition is non-monetary, recognising that a simple "thank you" goes a long way. We have plans to expand Smart Stars in the coming year to support our culture, values and behaviour programme.

As we move forward, we will be focussing on the establishment of a new grading structure, to aid the development of careers at DCC and in support of a move to greater transparency around pay decisions.

We will also be paying close attention to the wellbeing agenda over the coming year, beginning with the development of a clear ambition and some measurable objectives.

Closely linked to wellbeing will be a review of our benefits offering, as we seek to provide colleagues with choices which link to their lifestyle.

Gender pay

Hourly pay	2022	2021
Mean pay differential (average)	16%	19%
Median pay differential (mid-point)	12%	25%
Bonus pay	**2022**	**2021**
Mean pay differential (average)	38%	33%
Median pay differential (mid-point)	42%	45%
Proportion of employees receiving a bonus	**2022**	**2021**
Men	73%	70%
Women	74%	76%

Delivering for our customers

DCC remains committed to deliver our vision for best practice customer engagement, ensuring our customers are central to our actions and behaviours. 2021/22 saw us deliver our second full year of engagement as outlined in our 2019 customer engagement strategy, where we committed to Inform, Shape and Survey.

Inform

For mandated activity, we will engage with the industry to ensure transparency on progress and costs

Shape

For non-mandated activity, valued at over £1 million, will seek views from customers on the scope of the programme, the options for delivery and the costs and benefits of different approaches

Survey

Where there is a clear set of options for future activity, we will engage through surveys to gauge industry views

We have listened to customers' feedback and are progressing our plans to transform our customer engagement capability and performance.

- We have re-focussed and improved our customer engagement operating model to clarify accountabilities across DCC and improve performance and collaboration.
- We have designed, and are in the process of implementing, standardised and improved customer engagement processes for our change activities. This will be embedded into our internal change methodology and will improve quality and consistency for customers.
- We have redesigned the Quarterly Finance Forum (QFF) in response to customer feedback. The QFF is now scheduled after the DCC Charging Statement is published, enabling customer engagement on the context and rationale for changes.
- We are sharing as much information as we can (even where it is sensitive) with the SEC Panel at lowest level of classification. More than 50% of our papers are rated green (the lowest classification level).

Sustainable business

Achieving carbon neutrality as a business for the past two years is a positive indication of how we aim to be a socially responsible organisation.

Our improved carbon performance is a direct result of our move to a hybrid working model, which sees a sensible blend of office and remote working, with travel now based on need rather than presenteeism. Repurposing some of our office space is helping to improve our facilities to encourage collaboration rather than simply commuting to sit at a desk.

We have arranged carbon offsetting purchases with Carbon Footprint Limited to support our carbon neutrality goal, including 250 trees to be planted in the UK and £3,500 going towards supported grid connected renewable solar energy power plants in India. All of our electricity supply is from 100% renewable sources. Electric Vehicle (EV) charging points at our Manchester office are now well established and utilised. 'Living pillars' are being trialled there too, maximising our green spaces around the site and encouraging biodiversity.

Methodology

We measure our environmental performance by reporting our carbon footprint annually in terms of tonnes CO2 equivalent (tCO2e) and tonnes of CO2 equivalent per person. The data relates to the DCC's owned and leased facilities under its operational control across the UK[8] and, within this, we report on our direct emissions from the DCC-controlled and owned sources (Scope 1), indirect emissions from consumption of energy (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance to the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of greenhouse gas emissions (the Strategic Report GHG Emission disclosures).

Our disclosures cover the sources of our greenhouse gas emissions from our operations in the UK. The DCC converts the consumption data into a carbon footprint in line with the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs (Defra).

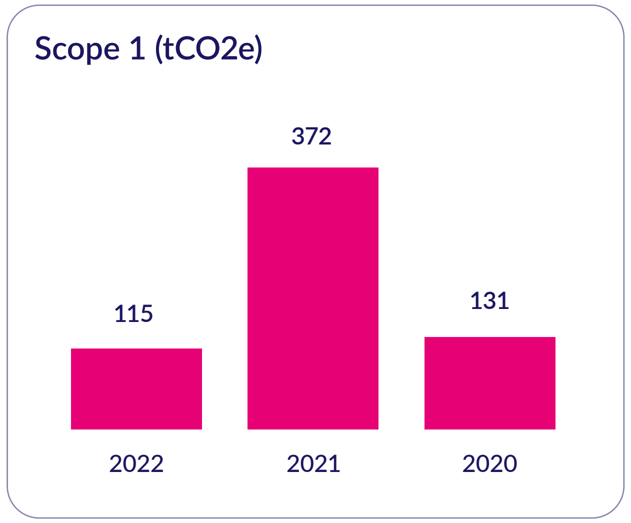
DCC's Smart Green Team

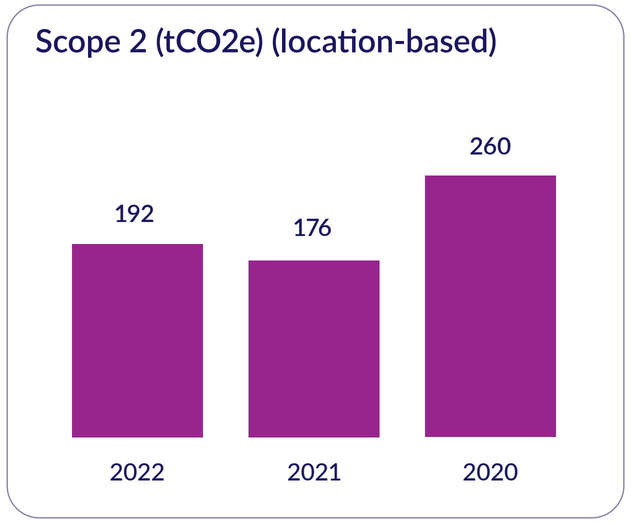
Our Smart Green Team, a group of DCC volunteers, continue to role model our corporate behaviours so we can lead 'smarter, greener lives', a commitment which is at the heart of our company purpose. A number of employee volunteering events during the year have demonstrated this commitment, including 20 of our colleagues volunteering for canal clear-ups in London and Manchester for the Canal and Rivers Trust.

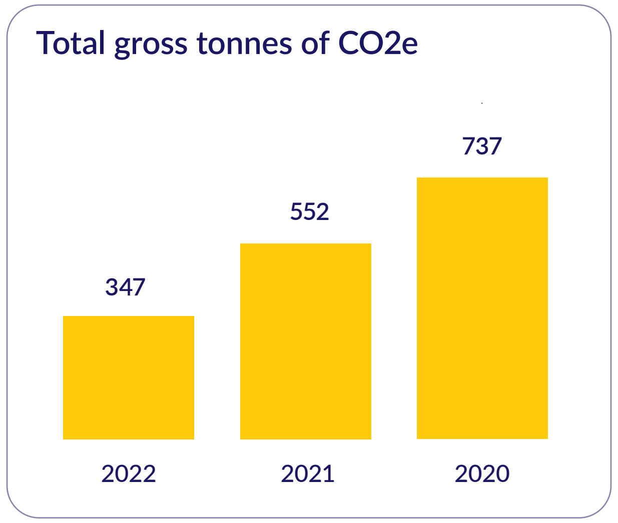
A dozen DCC colleagues nominated local schools across England to benefit from our tree-planting initiative with one of our suppliers CGI, supplying batches of saplings for schools to green their outdoor space, with some colleagues appearing in class to talk to pupils about our work to create a low carbon UK.

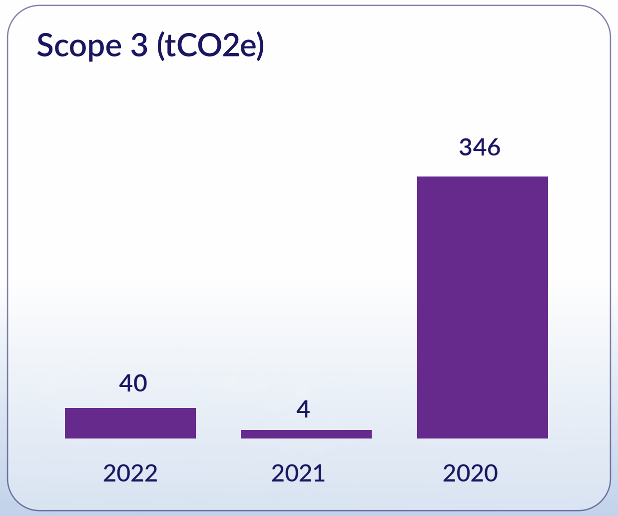
Steve Chawke at DCC helped to plant 10 birch trees at Calverley's Church of England School in Leeds. Steve visited the school to help Head Teacher Bob Curran to plant the trees along with teaching assistant Diane Chamberlain and local horticulturalist, Mark Harkins. The school used the donation as their plant a tree commitment in the Queen's jubilee year.

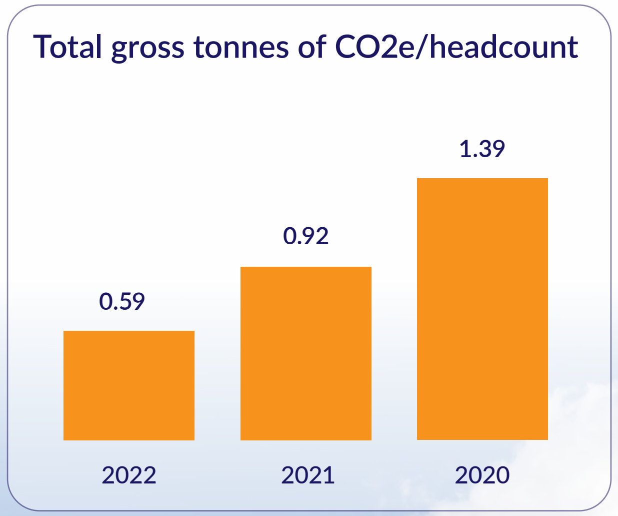
Annual greenhouse gas emissions











[8] All DCC's operational activity takes place within the UK.

Risks

Overview of Risk Management and Internal Controls

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

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

Our Risk Management Approach and Governance

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

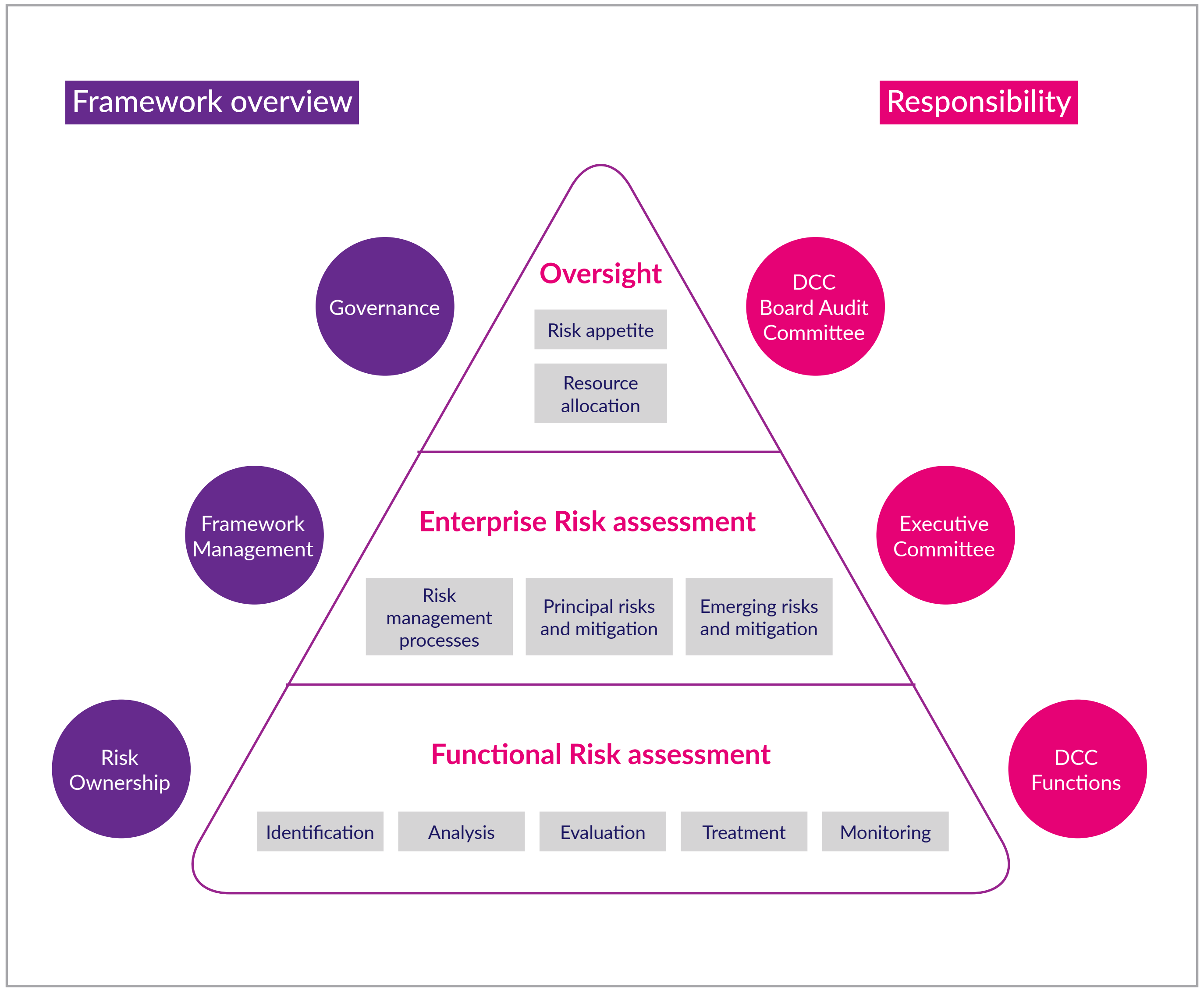
The DCC Board is responsible for approving the risk management systems and framework, setting the risk appetite, and ensuring the necessary resources are in place to manage risk effectively. Our Audit and Risk Committee (ARC) is responsible for monitoring the effective operation of the risk management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

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

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

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

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



Internal Controls

We operate a robust internal controls framework to ensure that we comply with all regulatory, Licence, internal and UK Corporate Governance obligations. Our internal controls and compliance framework is described below:

DCC Internal Controls and Compliance Framework

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

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

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

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

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

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

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

Internal control and risk management

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

The risk and audit function prepares and present updates on Licence and Code (SEC and REC) compliance, internal audit activity, enterprise risk as well as the associated actions at each Committee meeting.

The 2022/23 internal audit plan, approved by the Committee in November 2021, includes both risk-based audits and a rolling schedule of policy audits that ensures all Company policies are audited over a three-year period. The risk-based audit schedule for 2022/23 includes a focus on customer credit cover and billing controls, the change delivery model used to govern programmes, and a review of the Technical Operations Centre.

The Committee has assured the quality, experience and expertise of the internal control and risk management function through review of the papers presented to both the Committee and Board, and through regular meetings between the Chair of the ARC and senior management.

Regular reporting to the Committee during the year included:

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

Principal and Emerging Risks

The principal strategic risks facing the Company have been categorised into five areas:

Risk category	Key risks
Loss of Smart Meter Licence, following a revocation event or service failure	• A material DCC security incident or data loss • A persistent non-compliance with Licence or Regulatory Codes • A significant consumer-impacting service failure (e.g. prepayment)
Cumulative reputational damage puts future Licence award and/or shareholder interests at risk	• Stakeholder perception of poor DCC value-for-money and cost management • Negative media reporting of DCC
Failure to deliver expected core business performance	• ·Service failure or degradation due to service provider failure • Service failure or degradation due to customer-introduced change, usage or behaviour • Service failure or degradation due to internal capability, process or controls failure • DCC unable to maintain a well-resourced, skilled and motivated workforce inhibits ability to deliver the business plan • Inadequate Health Safety and Environment (HSE) controls results in a material HSE incident
Failure to deliver expected network innovation and re-use performance	• DCC fails to secure stakeholder support for innovation and re-use plans
Solvency and liquidity	• DCC becomes insolvent or unable to meet financial covenants

The latest risk position and movement in risks during 2021/22 is summarised below:

Risk	Context	Mitigation	Residual risk	Net Move
Material DCC security incident and/or data loss	A security breach or data loss incident could have significant consequences for our customers and energy consumers and is a significant threat to the business.	• DCC is secure by design and assured by the UK Government and Security Services. The security framework and controls are regularly audited and tested, and security is a primary focus of the Board. DCC operates a SOC, which monitors and assures effective security controls across the DCC systems and network.	Low	→
Persistent DCC non-compliance with Licence or Codes (SEC or REC)	DCC operates in a complex regulatory environment with many compliance criteria and ongoing change. A material compliance breach or persistent non-compliance with Licence or Code obligations could result in loss of the Licence..	• DCC operates a compliance management framework that ensures traceability of all Licence and SEC Code obligations to a responsible business owner. DCC is currently assessing REC compliance in advance of service go-live in summer 2022. Regular testing is conducted to assure compliance, and identified non-compliances are reported to the ARC.	Medium	→
Consumer impacting Prepayment service failure	Energy consumers operating in 'prepayment' mode are dependent on digital vending services and correct function of the supply connect and disconnect service on the smart meter. A DCC failure to ensure service performance and continuity could result in a critical impact to consumers and in loss of the Licence.	• DCC operates a TOC which monitors potential service risks across the ecosystem including prepayment service performance, and proactively supports incident response. • DCC has a defined Business Disaster Recovery Policy that is tested regularly to ensure any service continuity issues are dealt with in an effective manner. • Any planned system downtimes are communicated to customers with at least 6 weeks notice to ensure any disruption to services can be minimised.	Low	→
DCC unable to deliver and demonstrate effective cost management and value for money	DCC is a licenced monopoly and all DCC charges are passed through to our customers. A failure to demonstrate effective cost controls and discipline could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a regular cycle of finance forums with our customers, providing detail and transparency on our charging statement and costs. • DCC customers are engaged in decisions on costs through relevant industry forums including the SEC Panel and SEC Operations Panel. • DCC is engaged in ongoing work with customers and the regulator to improve the transparency and traceability of decisions on new activities and costs. • DCC has a procurement and contract management function that ensures all externally procured goods and services are procured through an open and transparent competitive process. • DCC operates a financial control framework that delivers budgetary control over all expenditure.	Medium	↓
Reputation damage associated with negative media coverage or commentary	The Smart Meter Implementation Programme is a high-profile government policy and attracts significant mainstream and social media attention. An ineffective or un-coordinated approach to manage a crisis event or to address inaccurate or negative media reporting could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• The Company has established a collaborative approach with BEIS, Ofgem and industry partners to coordinate media response when and as appropriate. • The DCC has established media-monitoring processes to identify and respond to content with a reputational impact. • Crisis management plans are established, and capability is regularly tested to assure performance.	Medium	→
Poor Operational Perform Regime (OPR) or Critical Success Factor (CSF) outcomes causes reputation damage to DCC	DCC customers are dependent on the availability and performance of the DCC network and communications hubs to complete the smart meter roll-out. In turn the DCC's margin is earned through a broad set of metrics which measures service performance, effective contract management and customer engagement. This aligns the DCC margin with customer success outcomes.	• OPR and CSF metrics are regularly reviewed at Management and Board Meetings and corrective action put in place where metrics are not meeting expectations.. • Operational service performance is monitored by the TOC which identifies potential service risks across the ecosystem and proactively supports risk mitigation and incident response. • Operational planning and monitoring processes are in place to assure network and supply chain capacity is sufficient to meet the planned demand from our customers. • Service Provider performance, which underpins all aspects of DCC service delivery and operations, is regularly monitored and risks and issues are reported to the Board. • Regular customer bilateral meetings have been introduced to enhance existing Customer Engagement processes and ensure customer expectations for engagement are being met. DCC operates a contract management framework that ensures best practice in the way contracts are awarded and managed. Ongoing assurance activity (including internal and external audit) ensures that these controls are operating effectively.	Medium	→

Risk	Context	Mitigation	Residual risk	Net Move
Service failure or degradation due to service provider failure	The DCC may experience service failure due to a design flaw impacting performance, or the financial distress of a supplier within its smart metering supply chain.	• DCC runs a technical design authority that is responsible for assuring all technical designs. • DCC operates a Supplier Relationship Management function to engage regularly with our Service Providers • Dashboards highlighting potential financial distress are maintained for key suppliers. This is being extended to service provider subcontractors. • All critical supplier contracts have performance metrics that ensure delivery of the services in line with stakeholder requirements. Failure of these metrics by any supplier results in the need for an immediate rectification plan. • DCC maintains a rating for each supplier to determine their performance and any deterioration in this rating due to service or relationship issues will result in an agreed remediation plan.	Critical	
Service failure or degradation due to customer-introduced change, usage or behaviour	The smart meter ecosystem includes meters and other devices that operate on the DCC network but are not controlled by the DCC. Change introduced or deployed onto these devices by DCC customers has the potential to cause material service degradation across the network. A failure by the DCC to appropriately manage or respond to customer-introduced service-impacting change could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a change coordination process with customers to reduce risk. • DCC encourages collaborative working with device manufacturers to test new devices or planned changes prior to deployment.	Medium	
Service failure or degradation due to internal capability, process or controls failure	Failures in internal processes and the controls framework result in service failure.	• DCC operates a standard Change Delivery Model and governance structure to provide control over all programme activity and assure delivery of expected functionality. • The company has a broad set of standardised and documented policies and procedures that act as controls for core processes across the business.	Medium	
DCC unable to maintain a well-resourced, skilled and motivated workforce	Loss of key staff on critical programmes or operational activity could significantly disrupt business performance.	• Staff turnover and attrition are regularly monitored at DCC Executive Committee, and critical role succession planning is in place. • DCC regularly surveys employee engagement, and improvement in engagement scores is included in Corporate objectives. • Company-wide development programmes support our 'one-DCC' culture and employee-retention.	High	

Risk	Context	Mitigation	Residual risk	Net Move
HSE incident due to poor DCC controls	DCC operates across multiple sites with facilities including radio-frequency testing which are visited by multiple external parties. In addition, DCC has a duty to ensure that effective consideration and controls for HSE risks are in place across the DCC ecosystem and all relevant service providers. A failure to ensure appropriate HSE controls are in place and operated could result in avoidable injury or damage to people or the environment.	• DCC operates a 'zero tolerance, zero harm' HSE policy supported by a comprehensive HSE management system, including operational HSE controls, audit and inspection. • HSE controls and compliance, and staff wellbeing are regularly reviewed at Board.	Low	
DCC fails to deliver an effective Elective Communication Service capability and demand for DCC services	The Licence requires DCC to seek and optimise re-use of the DCC network and innovation in new services. A loss of confidence by existing stakeholders in DCC's ability to deliver the core smart meter service could inhibit the pace or direction of future re-use and innovation. In addition, if DCC is unable to provide a suitably attractive and flexible environment for innovation then existing or new customers may choose not to develop new products on the DCC platform.	• The Company is taking a measured approach to re-use and innovation, monitored by the Board, to ensure no detriment to core delivery. • Opportunities and scope for re-use and innovation are reviewed and prioritised in collaboration with key stakeholders including BEIS and DCC customers.	Medium	
DCC fails to secure a role for Electric Vehicle charging	The DCC is uniquely placed to play a meaningful role in a UK-wide strategy in relation to Electric Vehicle charging.	• The DCC continues to focus on its core delivery, but also maintain relationships with BEIS and other Electric Vehicle charging stakeholders to raise awareness of the benefits of reusing the smart metering system in relation to Electric Vehicle charging.	High	new
Solvency and liquidity	Poor cash management or a significant fraud could result in DCC becoming insolvent or unable to meet its financial covenants.	• The Company operates robust financial planning and control processes. Financial stability arrangements are in place with the DCC parent company (Capita plc). • Fraud controls are regularly audited to ensure effectiveness and compliance.	Low	

Key:
No change in net risk exposure
Increase in net risk exposure
Decrease in net risk exposure

Ukraine-Russia conflict

In addition to the principal risks highlighted above, the Board has been closely monitoring the risks associated with the Russian invasion of Ukraine. This includes increased awareness of potential cyber security threats as well as any individual supplier risk relating to economic sanctions or supply chain disruption. DCC has more specifically reviewed its supply chain to identify and mitigate any known risks that may affect our services and in particular the supply of Communication Hubs. At the time of this report, none have been identified. Further work is underway to consider the implications of sanctions being applied to Russian-allied countries (e.g. Belarus).

Financial performance

We operate on a nil profit model whereby revenue is equivalent to costs incurred plus margins earned in delivering and operating the smart meter network. Ofgem assesses incurred and forecast costs through the annual price control review and any resulting adjustments to costs and margin are made in a future year. Therefore, the Directors consider costs to be the primary driver of the Company's financial performance.

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

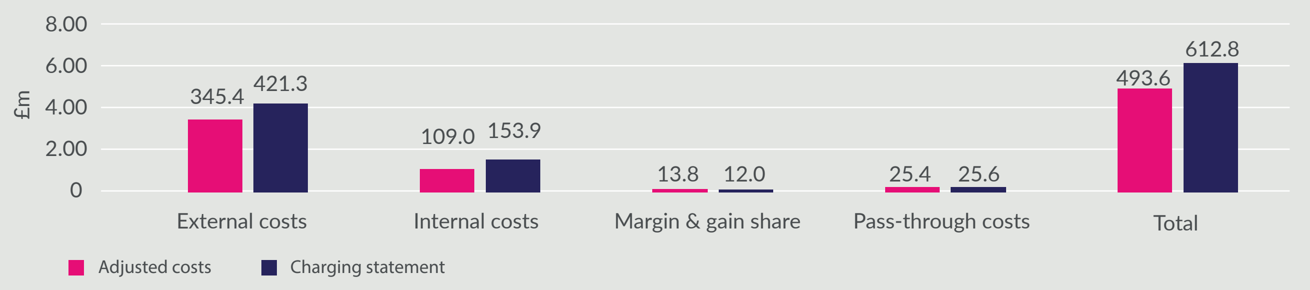
	2022			2021		
	Adjusted costs (£m)	Statutory costs (£m)	Variance (£m)	Adjusted costs (£m)	Statutory costs (£m)	Variance (£m)
Key suppliers	345.4	286.5	58.9	442.7	282.1	160.6
Other suppliers	25.4	25.8	(0.4)	32.8	32.8	0.0
Administrative costs	122.8	128.0	(5.2)	124.6	127.2	(2.6)
TOTAL	**493.6**	**440.3**	**53.3**	**600.1**	**442.1**	**158.0**

Recognition differences between adjusted and reported results

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

3 As defined in the Licence

Comparison to Charging Statement for the year ended 31 March 2022



A large proportion of underspend compared to forecast is due to lower spend in our programme costs than anticipated, as budgets were still in early stages at the time when charges were set. We have also seen a delay in some programmes, moving costs to the next financial year, as well as delays in recruitment leading to lower resource spend than planned.

Price Control assessment for year ended March 2021

Each year Ofgem carries out a price control assessment to ensure that costs we have incurred are economic and efficient. Scrutiny of costs and associated revenues in this way provides assurance to stakeholders that we are providing value for money.

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

- All external costs were assessed to be economic and efficient.
- £1.2m of internal costs incurred were assessed to be unacceptable under the Licence. This will be returned to customers through charges in 2022.
- A £0.4m reduction in baseline margin was determined due to performance under Project Performance Adjustment Scheme.
- A £7.3m adjustment to baseline margin was awarded for work carried out to date and due to be carried out in 2022 in relation to increased scope in business activities.
- A £13.5m adjustment to the external contract gain share to reflect the Company's share of cost savings achieved through refinancing activity.

The net financial impact of the price control assessment is what the Company and the shareholder consider to be the margin earned from the smart metering contract. This margin impact in relation to 2021 is presented in administrative expenses in the reported results of the Company. £23.6m (2021: £11.2m) has been included in administrative expenses this year.

Liquidity and financial stability

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

A key priority is to ensure that charges to customers are set at an appropriate level to ensure adequate cash levels are maintained throughout the year and to minimise the risk of having to re-open a charging statement. The closing trading cash balance was £105.8m (2021: £72.0m). The increased cash balance from prior year is partly due to timing of spend, with additional cash outflow relating to 2021/22 in the quarter following year end. The remaining increase in cash results from underspend, and £40.0m of this balance was returned to customers through a reduction in customer charges in April 2022.

The Company does not have external financing but does have access to financial support, if required, through arrangements in place with the parent company up to a total value of £15.0m (2021: £15.0m).

We have seen an unprecedented number of energy suppliers go out of business this year and therefore a much larger balance of unpaid invoices compared to previous years. Irrespective of both the volume and value of unpaid invoices we continue to have access to credit support provided by customers in accordance with the SEC, which can be drawn upon if a customer fails to pay their invoice. After applying credit cover the remaining debt balance at the end of 2021/22 was £2.4m. This was recovered from excess cash receipts in the year, before returning funds to customers for over-recovery of charges compared to spend.

Credit support is provided in the form of a bank guarantee, letter of credit or a cash deposit. The value required is calculated per section J3 of the SEC.

On 31 March 2022 the Company held £23.5m (2021: £19.1m) in cash deposits. Cash deposits, together with bank letters of credit and affiliate guarantees, give cover for approximately 86% of one month's total charges to customers.

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2022, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 March 2024, as well as considering several plausible downside scenarios as a result of COVID-19. The Board's assessment is set out in more detail in note 2 to the financial statements.

Non-financial reporting

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

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

The Directors consider that they, both individually and collectively, have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) S172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2022 including:

a) **The long term:**

The Board regularly discusses the long term at its scheduled Board meetings and trading updates. Additionally, the Board meets twice annually to discuss and review the approach to longer term plans, objectives and risks over a 4-year horizon. These discussions take account of the views and feedback of our key stakeholders including our customers. In line with the views of our stakeholders, the DCC's clear focus is currently on increasing the efficiency, quality and stability of our platform and working with our customers to enhance the service we offer in response to their needs.

b) **Workforce and employee engagement:**

Our workforce comprises of employees and contractors who are fundamental to delivering our core business and strategic ambition. The success of our business depends on attracting, retaining, and motivating employees. The Board is committed to having an effective engagement strategy with the workforce. During the year, engagement has been primarily through representation of the Chief People Officer for employee related discussions, including feedback from our regular People Surveys. Additionally, the Board has expanded the remit of the Remuneration Committee (now Remuneration and People Committee) to include workforce and people matters.

We recognise that as the UK begins to emerge from the COVID-19 pandemic that engagement with, and wellbeing of, our staff is paramount. Given the nature of our work it is necessary for a number of our staff to be on site at our testing facilities, however, where possible, we have introduced flexible working arrangements. The transition back to office-based working has been monitored through Company-wide wellbeing surveys and we have trained mental health first aiders to help support our people.

To date the Board has decided to not implement any of the methods suggested in the Corporate Governance Code to engage with our workforce. Instead the DCC has a workforce engagement panel, and processes to assess and monitor culture and workforce-related matters, including through eNPS and robust performance management.

For further details on the Board's approach to monitoring and assessing company culture please refer to page 51.

For further details on the Board's employee engagement please refer to page 51.

For further information on 'Our People' including employee engagement and satisfaction as well as employee networks and groups, please refer to page 24.

c) **Business relationships with:**

a. Suppliers:

i. Forms of engagement: Executive Directors and the Senior Management Team regularly meet with suppliers to foster relationships. In addition, DCC's Supply Chain Supplier Relationship Management teams regularly engage with suppliers on key issues.

The business monitors interactions and performance of its key suppliers, and monthly dashboards are in place for the Top 13 suppliers. DCC also complete an annual supplier review, assessing them with traffic light ratings, which focus discussions with suppliers and ultimately help drive performance.

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

iii. COVID-19: During the pandemic we continued to focus, among others, on ensuring that we meet our prompt payment target to support suppliers cashflow.

b. Customers:

i. Forms of engagement: Customer engagement remains an ongoing key focus area. During the year, there has been significant engagement with customers via webinars and workshops that have provided us with valuable insights, knowledge, and views about the key issues facing our customers. This is explained in more detail on page 27.

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

iii. COVID-19: Whilst we are obliged to comply with the SEC with regards to billing, cash collection and credit cover, we have continued to engage regularly with customers, SECAS and the SEC panel to support customers with any payment issues during this time.

c. BEIS/Ofgem/SEC Panel:

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

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

d. Shareholder:

i. Forms of engagement: There is an ongoing engagement between the Company and its shareholder through two Capita-nominated Directors serving on the Board of the Company, the Chairman and Patrick Elliott, as well as through a formal forum, the Quarterly Shareholder Review, which comprises senior representatives from both Capita plc and the Company.

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

For further details on Board engagement with the shareholder, please refer to page 52.

d) Impact on the community and environment:

The Board is committed to the Company's 'Smart Green' agenda and has set the target for the Company to reduce its absolute, measurable, carbon load on the environment. Please refer to page 29 for further information on Smart Green initiatives in the year and the Company's carbon usage.

e) High standards of business conduct:

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

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

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

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

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

e. The formation of a Senior Leadership Team supports the implementation of the corporate culture and provides valuable insight in the issues facing employees within the Company.

Viability statement

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

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

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

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

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

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

The Directors confirm that they have conducted a robust assessment of the emerging and principal risks facing the Company as set out on pages 34 to 38. Based on this assessment, and providing that the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and that the Smart Metering Programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2025.

4. Governance

4. Governance

Chairman's introduction

The Directors recognise the responsibility for the proper management of the Company, achieving a high standard of corporate governance, and engaging with our stakeholders. A robust governance framework is essential in underpinning the delivery of our objectives and promoting long-term, sustainable success and this way, our governance framework supports our vision of making Britain more connected, so we can all lead smarter, greener lives. Below, we describe the role of the Board, how the Board has met its responsibilities and how we apply the principles of the UK Corporate Governance Code in practice, as DCC continues to evolve and mature as a business.

Role of the Board

The Board's role is to provide leadership to the business, having overall responsibility for the Company's strategy, performance, the framework for risk management and internal controls, governance matters and engagement with stakeholders. The Board remains committed to understanding the needs of our stakeholders and on page 42, in our Section 172 statement we explain how we engage with them. The Board's full responsibilities are set out in a formal schedule of matters reserved for its decision.

In this report, we describe how this is carried out through the work of the Board and its Committees. Information on how the Board operates and the UK Corporate Governance Code's principles are applied can be found:

Purpose, strategy and business model	p. 7
S172 statement	p. 42
Our stakeholders	p. 42
Board composition	p. 47
Culture	p. 51
Nomination Committee report	p. 55
Audit and Risk Committee report	p. 56
Remuneration and People Committee report	p. 61

The Board

At the end of March 2022, the Board had seven Directors: The Chairman (also a Non-Executive Director); two Executive Directors, the CEO and the CFO; a Non-Executive Director; and three Sufficiently Independent Non-Executive Directors.

Board independence

Non-Executive Directors are required to be independent in character and judgement, so that they can exercise independent oversight and effectively challenge management. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy. With the exception of Richard McCarthy and Patrick Elliot, who are employees at the shareholder, all other Non-Executive Directors have been determined to be independent. The Directors of the Company currently in office are listed on page 48.

Board leadership

Board members

Richard McCarthy
(Chairman)
Appointed: October 2013

Key skills:
Richard is an experienced Non-Executive Director and Chair, and throughout his career has held senior roles in the public and private sector. He has extensive knowledge of the UK Government's operations and engagement having spent eight years as a Civil Service Director General.

Experience:
Richard joined Capita's Local Government, Health and Property Division as Executive Director for Central Government in February 2012. He subsequently became Capita Group's Senior Director of Government Affairs and in addition to DCC he took on the Chairmanship of the Axelos and currently serves as Chairman of Fera Science, both joint ventures with the UK Government. In 2021, he also became the independent Chairman of Andium Homes, the Jersey Government owned social housing provider. Prior to joining Capita, Richard was the Director General, Neighbourhoods, at the Department for Communities and Local Government and their lead official for housing, planning, regeneration, local economies, climate change, building standards and the European Regional Development Fund. He received a CBE in the 2009 New Year's Honours for his services to housing and planning.

Angus Flett
(Chief Executive Officer)
Appointed: February 2017

Key skills:
Angus is an experienced senior leader in the telecommunications and technology sector. He brings his extensive knowledge an in-depth understanding of the industry to leading the DCC in its mission to digitise Great Britain's energy system.

Experience:
Angus joined DCC as CEO in March 2017. Prior to joining the DCC, Angus was a Senior Vice President for Global Enterprise Products at Vodafone and, until 2013, the Managing Director of Customer Services and CRM at BT. Previously he has held senior positions within Cable and Wireless and Ciena. Angus is currently a Non-Executive Director at Jersey Telecom.

Jason Clark
(Chief Financial Officer)
Appointed: February 2021

Key skills:
Jason is an experienced finance director and leader with career spanning across Blue Chip and SME private equity backed energy and infrastructure companies. His expertise in risk management, financial and commercial leadership is driving improvements to DCC's financial systems as the Company evolves. Experience:

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

Phil Male
(Senior Independent Director)
Appointed: September 2013

Key skills:
Phil has 20 years' experience as an Executive Director within FTSE companies. He has an extensive background in telecoms, media and Internet. He has operated in small start-ups through to large global companies and high growth environments. Phil has also developed extensive knowledge of the industries key stakeholders and the sectors key regulations and guidelines.

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

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

Key skills:
Barbara is an experienced Non-Executive Director who has worked extensively with SMEs, PLCs in regulated sectors, international private companies and venture capital specialists. She brings her deep expertise in innovation for growth and sustainability, strategic planning, start-up acceleration and business transformation and project delivery to the Board.

Experience:
Barbara is currently a Non-Executive Director and Chair of Audit and Risk at Sovereign Housing Association, Non-Executive Director for BSC2 VCT and a Non-Executive Director and Chair of the Remuneration Committee of British Business Bank. Her expertise includes innovation, growth and sustainability, strategic planning, start-up acceleration, business transformation, deal preparation and corporate governance.

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

Key skills:
Ian has a strong track record in leading fast-growing businesses, which gives him insight into, and relevant experience in, strategic planning, strategy implementation and business transformation. Through his role as the CEO of an independent energy provider, Ian also brings his expertise of the UK energy and smart-metering technology to the Board.

Experience:
Ian is Chairman of Festicket Ltd, Board Member and Chair of the Operating Committee at M-Kopa Ltd, Board Member and Chair of the Audit and Risk Committee at Seedrs Ltd, Trustee Board Member and Chair of the Audit and Risk Committee at English Heritage Trust and Board Member at Wesleyan Assurance. In his executive career, he was most recently CEO of First Utility, the largest independent energy provider in the UK and a pioneer in smart-metering technology and energy analytics, which was acquired by Shell at the end of 2017. Prior to that, he was CEO of lastminute.com. His early career was in the IT industry at ICL before moving into telecommunications and spending a number of years at Nokia.

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

Key skills:
Patrick is a customer-focused leader with a strong track record of growing and developing businesses. He has significant expertise in both large corporate and smaller entrepreneurial environments, growing profits across complex portfolios, establishing high-growth start-ups and leading major change programmes and business turnarounds.

Experience:
Patrick joined Capita in 2013 and currently serves as the Chief Strategy and Product Officer in Capita's Government Services division. Prior to that, from 2011 Patrick was the CEO of The Instant Group, a privately owned flexible office specialist, working with the public sector, corporate and SME clients. Between 2007 and 2011, Patrick was the CEO of Serco's Business Link in London, providing business support to London-based SMEs. Before that, Patrick served as Vice President at SAIC. He is bi-lingual in English and French, as well as a Chartered Director and Chartered Engineer.

UK Corporate Governance Code

DCC applies the Principles and Provisions of the UK Corporate Governance Code (the UK Code), which can be found on the Financial Reporting Council's website. Throughout the year, DCC complied will all relevant provisions, except for those noted below:

Provision 9: ***The Chair should be independent on appointment when assessed against the circumstances set out in the Code.***

The Chair was appointed on incorporation of the Company and is a senior employee of the Company's shareholder, Capita plc. The majority of NEDs are independent. The Chair has not served on the Board for more than nine years. Board appointments are conducted in accordance with both, Capita's policy and DCC Licence conditions.

Provision 18: ***All Directors should be subject to annual re-election. The Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.***

Due to the ring-fenced nature of the Company's operations it would not be appropriate to have annual re-elections of Directors at this time.

Provision 24: ***The Board should establish an audit committee of independent NEDs.***

DCC's ARC has four committee members: three Independent Non-Executive Directors, and one Non-independent Co-opted Member, who brings recent and relevant financial experience.

Provision 32: ***The Board should establish a remuneration committee of independent Non-Executive Directors. In addition, the chair of the Board can only be a member if they were independent on appointment and cannot chair the committee.***

All members of the Remuneration and People Committee are Non-Executive Directors, three of whom are Independent NEDs and the Chair of the Board chairs the Committee. The Board considers this arrangement to be appropriate for the size and nature of the business, and regularly reviews this to ensure these arrangements remain appropriate.

Provision 37: ***Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.***

The Company's remuneration scheme and policy does not currently include provisions that enable the Company to recover and/ or withhold sums from Directors. There are no share awards. The Remuneration and People Committee does, however, have discretion to override formulaic outcomes and set final awards each year.

Governance and strategy

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

The Board determines the strategic objectives and policies of the Company to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company. The Executive Directors are directly responsible for running the business operations; and the Non-Executive Directors provide constructive challenge, bring independent judgement and scrutiny, offer strategic guidance and hold management to account. Following presentations by Executive and Senior Management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the Executive Management Team are fully empowered to implement those decisions.

The Board's full responsibilities are set out in the schedule of Matters Reserved for the Board in our Board and Governance Manual, and certain responsibilities are delegated to the Board Committees, to help the Board operate effectively and give an appropriate level of attention and consideration to pertinent matters. Our Board and Governance Manual and committee Terms of Reference can be found on DCC's website. We explain how the Directors discharged their duties under Section 172 on page 42. Board policies, which help to codify its processes, are reviewed and, if needed, periodically updated, with the support and guidance of a Company Secretary.

There is a clear division of responsibility between the running of the Board by Richard McCarthy as Chairman and the running of the business by Angus Flett as CEO. During the year, in line with good practice, the Chairman meets with the Non-Executive Directors without the CEO present, and the Senior Independent Non-Executive Director also holds meetings with the Non-Executive Directors without the Chairman.

The Board

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

Matters reserved for the Board

Strategy and management

Financial reporting

Internal controls

Significant contract approvals

Shareholder communication

Board membership and succession planning

Audit and Risk Committee

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

Remuneration and People Committee

- Remuneration policy and principles
- Incentive design and target setting
- Executive and senior remuneration
- Employee engagement, culture and people policies

Nomination Committee

- Board succession planning
- Appointments and re-appointments to the Board
- Board composition, including diversity

Division of responsibilities

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

Culture and employee engagement

The Board reviews policies to ensure they are aligned with the Company's purpose, values and strategy, are well understood by the workforce and are driving the right behaviours.

All people related matters are discussed by the Board on regular basis and our Chief People Officer frequently presents at Board and Remuneration and People Committee meetings, providing updates and inviting discussion on matters such as attracting and retaining talent, employee satisfaction, remuneration policy, incentive schemes, as well as any other matters raised through the People Forum. More information on our people initiatives can be found on page 24.

Directors discuss the results of the annual People Survey results, which provide valuable insights into how well the culture is embedded across the organisation and, importantly, key areas of focus for development. More information on our culture transformation programme can be found on page 25.

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

Diversity and inclusion

The Board considers diversity in all its forms to be important for the future development of the business; Board diversity sets the tone for the rest of the organisation and allows us to draw upon a variety of experiences and perspectives. Diversity of skills, experience, gender, social and ethnic backgrounds, cognitive and personal strengths, outlook and approach amongst other factors are all taken into consideration as part of the appointments process and succession planning. We are also aware that diversity of outlook and approach, whilst hard to measure, may be equally as important.

We are supportive of the ambitions expressed in reviews on diversity, including the most recent updates on the Hampton Alexander Review and the Parker Review goals. Female representation on the Board is currently 14.3%, and we will continue to examine ways in which we can increase female representation on the Board going forward. Although we are not a listed company, we are also supportive of the targets of the Parker Review for companies to have at least one Director from an ethnic minority background by 2024.

The Nomination Committee ensures that new Board appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and leadership for the Company. The Nomination Committee Report on page 55 includes more details on this.

Supported by the Remuneration and People Committee, the Board also monitors progress against the plan for diversity and inclusion across the organisation and ensures the appropriate sponsorship from Senior Management is in place. Please refer to page 25 for more information on our commitment to diversity and inclusion in the wider workforce.

Shareholder engagement

Both the Chairman and Patrick Elliott are employees of the shareholder, and there is ongoing engagement via their roles on the Board. In addition, the Quarterly Shareholder Review, established in 2020, comprises senior representatives from both Capita plc and the Company, including the Chairman, Patrick Elliott and the Executive Directors. The group meets quarterly throughout the year and discusses matters such as operational and financial performance, risk management and future regulatory framework.

Evaluation of Board Performance

Directors consider the evaluation of the Board, its Committees and themselves to be an important aspect of corporate governance, and evaluations are undertaken annually.

The evaluation undertaken in 2021 was facilitated by the Company Secretary and took the form of a detailed questionnaire and Board discussion. The exercise focused on key areas in order to assess the effectiveness of the Board and its committees and identify possible areas for improvement, and these included: purpose, strategy and long-term view; DCC's key strategic priorities; culture; relationships and engagement with stakeholders; and Board decision making and meeting management. Whilst we welcomed the results of the evaluation, which indicated that the Board and its Committees are operating effectively and with the right balance of skills and experience, we agreed a number of actions to implement over the following year, including:

- Continued focus on the strategic priorities and dedicated sufficient time at the Board meetings to matters of strategic importance;
- Continued focus on people and culture, refining ways culture is measured and captured so it can be better understood and shaped;
- Evolving the reporting, with particular emphasis on focusing the papers and re-considering the agendas for trading update meetings;
- Where possible, allowing more time for debate to further improve the focus on critical issues; and
- Further refine balancing the amount of time spent on operational delivery, strategic goals and the details of programme delivery.

The Board has started to implement changes to address these actions and we will report on the progress we make in the next Annual Report.

The actions arising from last year's Board evaluation were also reflected on and implemented during the year.

Actions arising from the previous Board evaluation	Actions we have taken
Continued focus on the risk agenda	Throughout the year the ARC continued to refine and review the risk management and internal controls framework, including the risk register. The agendas for the meetings of the Board and the ARC have been reviewed to allow more time for focused scrutiny and discussion on risk matters. (refer to page 59)
An ongoing focus on succession planning, both at Board and Executive level	During the year the Nomination Committee reviewed detailed succession plans for the members of the Executive Team and, searching for a replacement for Mr Male, also focused on a longer-term succession plan for the Board. (refer to page 55)
Industry relationships and stakeholder interaction	The CEO, Senior Managers, as well as the Chairman of the Board, regularly meet with stakeholders, including BEIS, Ofgem and customers. The Board dedicates time to receive updates and better understand stakeholder needs.
Innovation and Growth, and the challenges of development and delivery	The Board continue to discuss the potential for Innovation and Growth within the specific Board Strategy sessions and have agreed with the current strategy proposed by the Executive team to deliver mandated and customer-driven activities only in the period to the next license renewal.

Board meeting and attendance

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

Director	Position	Board	Nomination Committee	Audit and Risk Committee	Remuneration and People Committee
Richard McCarthy CBE	Chairman	9 (9)	2 (2)	n/a	4 (4)
Angus Flett	CEO	9 (9)	n/a	n/a	n/a
Jason Clark	CFO	9 (9)	n/a	n/a	n/a
Barbara Anderson	Independent NED	9 (9)	2 (2)	3 (3)	4 (4)
Patrick Elliot	NED	9 (9)	2 (2)	n/a	4 (4)
Phillip Male	Senior Independent Director	8 (9)	2 (2)	3 (3)	4 (4)
Ian McCaig	NED	9 (9)	2 (2)	2 (3)	4 (4)

During the year, the Board also met 3 times for trading update meetings, 1 time for Board strategy meeting and 1 time for a Board Risk Appetite Review meeting.

The Board meets formally at least seven times a year and in 2021 we continued to adapt the ways in which we meet, holding virtual and hybrid meetings depending on the government guidelines at the time. The Board's annual corporate calendar helps us plan meeting agendas, ensuring that all responsibilities and duties of the Board and its committees are discharged during the year, and allows flexibility for updates and debates on any pertinent matters that arise throughout the year.

Management of conflicts of interest

During the year and until the signing of this Report, none of our Directors or their connected persons have any family relationship with any other Director or officer, nor do they have a material interest in any contract to which the Company is a party. Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. If any Director becomes aware of any situation which might give rise to a conflict of interest, they must, and do, inform the rest of the Board immediately and the Board can either authorise such conflict or request that the Director recuse themselves from certain relevant discussions. This information is recorded in the Company's Register of Conflicts and in addition, every year each Director certifies that the information contained in the Register of Conflicts is correct.

Directors' indemnities

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

Richard McCarthy CBE

Chair

25 July 2022

DCC Public

Nomination Committee report

Members	
Richard McCarthy	Patrick Elliott
Barbara Anderson	Phil Male
Ian McCaig	

Purpose

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and its committees, ensuring they have the right balance of skills, experience knowledge and diversity, including that of gender, cognitive and personal strengths, needed to carry out its duties. The Committee also leads the process for appointments to the Board and Senior Management (Executive Committee) positions, considers and formulates succession plans and oversees the development of a diverse succession pipeline of candidates in the context of DCC's strategic plans, its leadership needs and ensuring the Company's continued ability to compete effectively in a marketplace.

Membership and Attendance

All Non-Executive Directors are members of the Committee and the CEO and other members of Management are regularly invited to attend meetings to provide a comprehensive updates and insight into any key issues and developments. Details of attendance by Board members are disclosed on page 53.

Committee activity

Following the establishment of the Committee in 2021, a schedule of agenda items was established to ensure that all matters required to be considered by the Committee were given due consideration and are reviewed at appropriate intervals.

In order to keep the right balance of skills and experience, the Nomination Committee keeps Board composition under review, and recommends to the Board if any additional skills should be recruited.

Talent management and succession

The Committee believes that effective succession planning can mitigate the risks associated with the departure of well qualified and experienced Directors. Our aim is to ensure that the Board, and Senior Management, is always well resourced with an appropriate mix of skills and experience. We established a skills and diversity matrix to allow us to identify any potential gaps in skills and experience that might need early consideration, and also considered how this might align with the future strategic direction of the Company. The skills matrix is reviewed on regular basis.

We have a formal, rigorous and transparent procedure in place for the appointment of new Directors, which includes consideration of candidates from a wide range of backgrounds and reviewing candidates' other significant commitments to ensure they have suitable time to devote to the position.

The Committee works to identify and develop a suitable pipeline of succession candidates for Senior Management roles, both internal and external, and ensures that it meets with potential candidates well ahead of any selection decision being necessary. The Committee also engages the Board early in the process to ensure all Directors have an opportunity to meet and assess prospective candidates. During the year, the Committee received a detailed update on the current succession plans for each of the Executive Committee members, including succession plans for the role of the CEO, as well as well as the needs and development plans for the individual Executive Committee members.

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

New appointments

Phil Male, the Company's Senior Independent Director (SID), is expected to retire from the Board later this year. The Committee has been working to identify a suitable candidate, whose skills and experience will compliment the Board's existing skill set and align well with the needs of the Board, in the context of challenges and opportunities facing the Company. With the DCC's skills and diversity matrix in mind, the Committee agreed on a description of a role, and identified the key needed skills and experience. In November 2021, the Committee agreed that Korn Ferry, an external search agency, be engaged to assist with the recruitment of a new SID. The recruitment process is progressing well, and the Committee had identified first a long-list and subsequently a short-list of potential candidates, each of whom, if appointed, would be considered to add to the diversity of skills, experience, and cognitive strengths of the Board. The Committee has begun interviewing the candidates and, once finalised, more information on the search and appointment process will be included in our Committee report next year.

During the year, the Nomination Committee also considered the re-appointment of Barbara Anderson, an Independent Non-Executive Director. Ms Anderson's first term as a NED would expire in July 2022 and following a thorough review process, the Committee agreed to recommend to the Board Ms Anderson's re-appointment for a second three-year term.

Induction, training and development

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

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

Audit and Risk Committee report

Members	
Barbara Anderson	Phil Male
Ian McCaig	Liz Brownell

Chair introduction

Throughout the year the Committee has continued to assist the Board in fulfilling its responsibilities, by monitoring and reviewing the effectiveness and integrity of the financial reporting, risk management systems and internal controls, challenging and guiding management, where appropriate. As DCC grows, the supporting business processes and reporting continue to evolve and be embedded in the organisation.

The Committee has also continued to oversee the key financial processes and policy updates as well as review the principal risks to the business against the risk appetite limits set by the Board. During the year, the Committee has also decided to tender the external audit services and has embarked on a selection process with the intention of recommending an appointment of a new external auditor for the audit of the following financial year, ending 31 March 2023.

Committee membership and attendance

All members of the Committee, except Liz Brownell, are independent Non-Executive Directors. Liz is a co-opted member of the Committee, appointed by Capita Group, and a UK Chartered Accountant qualified with Deloitte before moving to Capita in 2012. Liz is also an independent member of the University of Derby Audit and Risk Committee. Liz is considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

The Committee meetings are also regularly attended by the Board Chairman, CEO, CFO and the Director of Financial Control, along with other members of the Senior Management Team and representatives from KPMG, the Company's external auditor. Opportunity exists at the end of each meeting for the representatives of the internal and external audit teams to meet with the Committee members without Management present, and both audit teams have access to the Committee should they wish to voice any concerns outside formal meetings.

The Board is satisfied that the combined knowledge and experience of the Committee's members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has competence relevant to the sector in which the Company operates. The ARC reviewed its effectiveness as part of a broader review of all Board Committee's effectiveness facilitated by the Company Secretary. The Board was satisfied the ARC is performing effectively and its composition remains appropriate. More information on the Board evaluation, which included the Committee's performance can be found on page 53.

How the Committee operates

The Committee has established an annual forward agenda aligned with the key events in the financial reporting cycle, and which includes all matters the Committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each Committee meeting, led by the Chair and attended by Senior Management. Their purpose is to identify key issues impacting the business that may require consideration by the Committee. At each Committee meeting, the members receive reports and presentations covering key financial reporting, risk, compliance and audit matters which are delivered by senior personnel. The Committee provides regular reports of its activities, significant matters and/or any decisions or recommendations to the Board. During the year under review, the Committee met three times.

Role and responsibilities

The Committee monitors the effectiveness of the Company's financial reporting, systems of internal control and risk management and the integrity of DCC's external and internal audit processes. The Committee's key responsibilities are:

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

Activities during the year

Financial reporting

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

Existence and accuracy of costs		
Matter considered	**Action**	**Outcome**
The amount of costs recognised in the period and whether they are permitted to be recharged to service users directly determines the amount of revenue recognised in the statement of profit or loss. Therefore, there is a risk that if costs are not accurately recorded, revenue would be misstated.	Members of the Committee receive regular updates from the CFO on costs incurred throughout the year as part of management information presented to the Board. The Committee reviews a reconciliation of costs in the financial statements to this management information.	The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue and cost recognition.
Going concern		
Matter considered	**Action**	**Outcome**
Consideration of the going concern assumption is the responsibility of the Board, and the Committee conducted an assessment as part of its support role.	The going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee considered the business plan projections that cover the 3 years to 31 March 2025, in addition to the cashflow projections until March 2024. The Committee considered the going concern assumption disclosures and the requirements of the Code as it applies to the Company's viability statement, including the three-year period of assessment which aligns with the Company's planning horizon and the processes supporting the viability statement. After discussion the Committee determined that the three-year measurement period is appropriate and that the viability statement (as set out on page 44) should be recommended to the Board for approval.	The Committee is satisfied that note 2 to the financial statements includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board, including the assessment of plausible downside case scenarios with respect to the COVID-19 pandemic in the UK.

Fair, balanced and understandable

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

Materiality

Materiality is important in determining the risk attached to any judgement. The Committee considers the audit materiality set by the external auditor, KPMG, and ensures that it is informed of individual items above a certain threshold that had, or are most likely to have, an impact on the financial statements. It reviews the external auditor's report and the individual items that breach the materiality thresholds and assesses their relative impact on the financial statements. Where needed, the Committee requests further clarification from both the external auditor and Management on the nature of these items and their relative importance in the financial statements. After having made such enquiries, the Committee is satisfied that materiality has been applied correctly in the accounts and that there are no material items that remain unadjusted.

External auditor

The Committee provides a forum for reporting by the external auditor and advises the Board on the appointment, independence and objectivity of the auditor, as well as fees for both statutory audit and non-audit work. The Committee discusses the nature, scope and timing of the statutory audit with the auditor and, in making a recommendation to the Board on auditor reappointment, performs an annual assessment of the auditor's suitability and performance. The auditor attends meetings of the Committee and provides updates on statutory reporting, any non-audit work and ongoing audit items. The auditor has opportunity to raise concerns with myself as Chair separately, as well as in private sessions with the Committee.

Auditor independence

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

- The CFO monitors the independence of the auditor as part of the assessment of the auditor's effectiveness and reports to the Committee.
- The CFO monitors the level and nature of non-audit fees. Specific assignments are discussed in advance with the auditor and flagged for the approval of the Committee as appropriate. The Committee considers implications for the objectivity and independence of the relationship with the auditor.

Non-audit services and fees

Permitted non-audit services are those closely related to the audit, including some required by laws and regulations, or where it is more practical for the external auditor to perform the service. The auditor will continue to perform the Agreed Upon Procedures that are issued by Ofgem and required by the Licence. Details of audit and non-audit fees are given in note 7 to the financial statements.

Disclosure of information to the auditor

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

External auditor performance

During the year, the Committee has reviewed the auditor's terms of engagement and the audit plan, assessed KPMG's performance, effectiveness and quality of the audit process, considered its remuneration and whether its continued appointment remained in the best interests of DCC and its shareholder. The Committee also reviewed its Non-Audit Services Policy, which helps to ensure that the auditor's independence and objectivity are not impaired. Following this review, the Committee was satisfied that KPMG had carried out its duties in a diligent and professional manner and was in line with requirements.

External auditor tender and re-appointment

The DCC's audit services have not yet been subject to tender since the company's inception in 2013. The performance of the auditor was reviewed at the Committee meeting on 14 June 2021, when the Committee considered the performance of the auditor to be satisfactory and recommended to the Board that the auditor be re-appointed for the year ending 31 March 2022. Considering the current auditor's tenure, and best practice recommendations to undertake a tender at least every ten years, the Committee decided to put the audit out to tender and we anticipate making a recommendation to the Board to appoint a new auditor for the year ending 31 March 2023.

Internal control and risk management

The Committee is responsible for reviewing the effectiveness of the Company's risk framework and systems of internal controls. As part of that, the Committee receives updates on Licence and Code (SEC and REC) compliance, internal audit activity, compliance and enterprise risk at each Committee meeting.

The 2022 internal audit plan, approved by the Committee in November 2021, includes risk-based audits that have been identified through reviewing DCC's Enterprise and Functional Risk registers, as well as review and discussion with the Senior Management Team. Policy-based audit topics have been included based on the ARC-approved policy for audit schedule.

The 2022 audit schedule includes on it DCC's monitoring and management of the financial resilience of its core Service Providers, and mitigations to minimise service disruption in the event of service provider failure; review of delivery against Business Accuracy Transformation and its objectives; assessment of security's NIST maturity and delivery against the transformation programme; and review of single source/ direct award procurements and compliance with Procurement Policy.

The effectiveness of the internal control framework and the risk management system was reviewed in March 2022. The Committee has assured the quality, experience and expertise of the internal control and risk management function through review of the papers presented to both the Committee and Board, and through regular meetings between the Chair and the Senior Management Team. Regular reporting to the Committee during the year included:

- Outcomes of planned controls and compliance monitoring activity, including an independent Compliance Officer Work Plan;
- outcomes of planned internal audit activity, including findings, risk assessment and recommendations;
- enterprise risk assessment, including review and approval of changes and proposed mitigations;
- completion of agreed internal audit, risk, and compliance related actions, and measures taken to manage overdue or outstanding actions; and
- review and approval of Internal Controls Document and Risk Management Strategy.

Barbara Anderson
Chair
25 July 2022

Remuneration and People Committee report

Members	
Richard McCarthy	Patrick Elliott
Barbara Anderson	Phil Male
Ian McCaig	

Annual Statement

I am pleased to present the Remuneration and People Committee report for the year ended 31 March 2022. This year, we have considered the role and objectives of the Committee and, as DCC evolves and grows, the Board decided to expand the Committee's remit beyond simply remuneration, and include governance, strategy and policies generally relating to employee matters Reflective of this change in scope, the Committee was re-named to the Remuneration and People Committee. We also continue to have the responsibility for determining and approving the remuneration policy for all Directors, senior managers and to review, at least annually, the pay and bonuses awarded to the wider workforce. When determining the Company's remuneration policy and incentive schemes, the Committee considers a range of factors including the economic conditions, guidance received from governing bodies and the feedback and views from our shareholder and stakeholders.

The key activities of the Committee during the year have included:

- The review of the remuneration policy for Executive Directors and members of the Executive Committee for 2022;
- The review of the Executive performance and annual pay award recommendations;
- Review of 2021/22 corporate objectives outturns and bonus awards;
- Review of 2022/23 corporate objectives;
- Reviewing the strategic people priorities, and helping redefine the DCC's cultural ambition, values and behaviours, including a review of Pay and Promotions Policy; and
- Approval of annual payments for 2022 under the annual bonus scheme and pay award effective from 1 April 2022.

How the Remuneration and People Committee operates

The Committee operates under delegated authority from the Board and comprises three independent Non-Executive Directors and two Non-Executive Directors. Although the composition of the Committee is not in compliance with the UK Corporate Governance Code because not all members are independent, it is considered to be suitable given the size of the Company. The majority of the members of the Committee are Independent Non-Executive Directors and the two Non-Executive Directors bring valuable insights to the discussions and the operation of the Committee.

The Committee is required to meet at least twice a year and otherwise as required. The number of formal meetings held throughout the year and attendance by each Board meeting is shown on page 53. The work of the Committee is planned with reference to an annual agenda to ensure that the key policies and incentive schemes are regularly reviewed and that the Committee operates effectively. In addition, the Chair, CFO, CEO and CPO meet prior to any meeting to identify any issues related to remuneration or the people agenda that may require consideration by the Committee. At each meeting the members receive reports and presentations covering wider workforce arrangements which include the annual pay and bonus review, future incentive schemes, and ensuring pay equality.

Remuneration and People Committee discretion

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

Remuneration policy

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

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

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

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

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

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

Summary Executive Director remuneration policy table

Base salary

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

Benefits

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

Pension

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

Annual performance bonus scheme

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

Non-Executive Director fees

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
Market competitive fees are set to attract and retain NEDs with required skills, experience, and knowledge so that the Board can effectively carry out its responsibility.	The NED fees comprise an annual basic fee with additional fees for further Board responsibilities such as: • Senior Independent Director • Committee Chair for any Committee of the Board. No NED participates in the Company's incentive arrangements or pension plan or receives any other benefits.	The annual basic fee is £45,000, with additional fees of £5,000 for additional duties such as a Senior Independent Director or Committee Chair.	Not performance related.

Annual bonus scheme 2021/22

Executive Directors are entitled to an annual bonus under the Company's performance bonus scheme. The scheme is applicable for all employees who meet the eligibility criteria. The maximum bonus entitlement is split between performance against corporate objectives (60%) and individual performance against personal objectives (40%).

The corporate objectives are set at the beginning of the financial year by the Board. Performance against them is assessed by the Committee and achievement as at end of March 2022 was agreed at 91.3%, detailed in the table below:

Objective area	Corporate objective	Weighting and Target performance	Final performance
Customer & operations	Deliver against the OPR metrics agreed with Ofgem and agree level of customer experience through surveys.	25%	28.8%
Delivering the 2021/22 roadmap	Deliver the agreed set of programmes within dates agreed in programme plans and within budgets set.	45%	33.8%
Security	Deliver a threat-led security function to identify, protect, detect, respond and recover from security threats.	10%	10%
Financial and commercial	Deliver expected margin returns to the shareholder and minimise disallowed costs from the Ofgem price control review.	15%	18.7%
People	Ensure the DCC is a rewarding place to work, leading to increased levels of employee engagement and satisfaction.	5%	0%
		100%	**91.3%**

Executive Directors' service agreements

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

Non-Executive Directors' terms of engagement

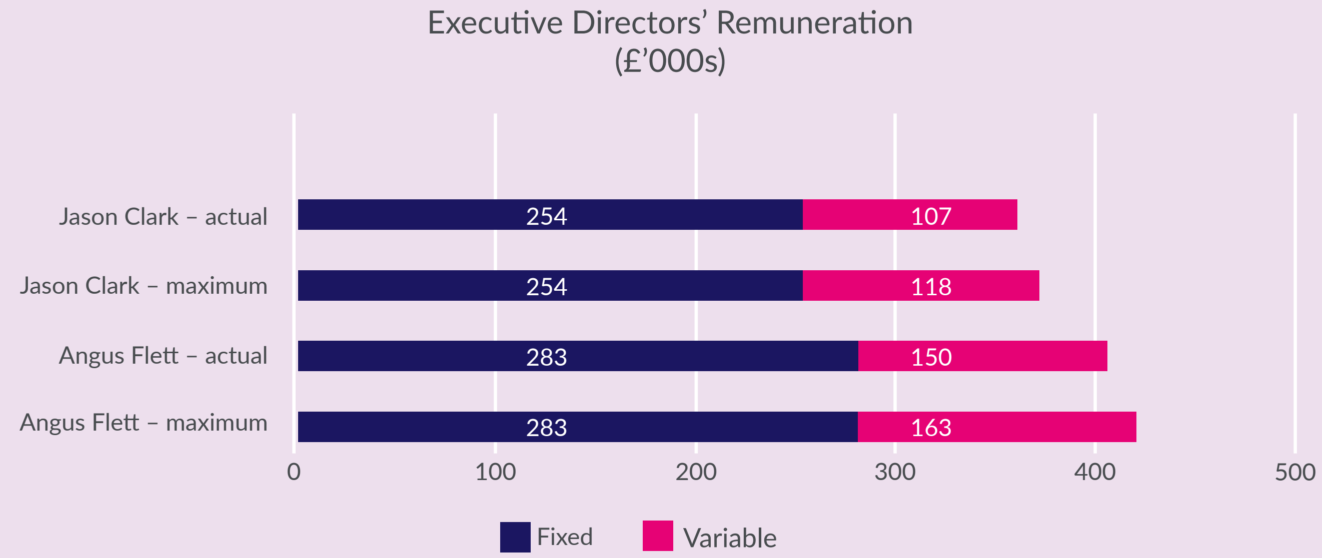
Independent Non-Executive Directors are appointed by letter of appointment for a period no longer than three years. An individual in this role can be re-appointed only once for a further period of no longer than six years. Each appointment can be terminated by one month's notice by either party. The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

Directors' remuneration earned in 2021/22 – single-figure table

	Salary & Fees[9] (£)		Taxable benefits[10] (£)		Annual bonus (£)		Shares (£)		Pension related benefits (£)		Total (£)	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Angus Flett	251,534	240,661	18,438	18,698	123,214	97,708	26,476	–	12,577	12,033	432,239	369,100
Barbara Anderson	47,010	55,627	484	–	–	–	–	–	–	–	47,494	55,627
Jason Clark[11]	225,000	37,500	17,737	2,824	106,628	50,000	–	–	11,250	1,875	360,615	92,199
Patrick Elliott[12]	45,835	28,653	–	–	–	–	–	–	–	–	45,835	28,653
Phil Male	50,000	56,020	507	–	–	–	–	–	–	–	50,507	56,020
Ian McCaig	50,000	–	507	–	–	–	–	–	–	–	50,507	–
Richard McCarthy[13]	66,443	67,465	–	–	–	–	–	–	–	–	66,443	67,465

Total remuneration for the highest paid Director is 4.3 times (2021: 4.0 times) the average total remuneration of all employees.

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



Richard McCarthy CBE
Chair
25 July 2022

9 Inclusive of PAYE.
10 Taxable benefits are composed of car allowance and optional benefits selected by the employee. Examples of available benefits are private healthcare and critical illness cover.
11 Jason Clark commenced his role as CFO on 1st February 2021.
12 This value represents the allocation of Patrick Elliot's cost in relation to time worked on DCC related activities.
13 This value represents the allocation of Richard McCarthy's cost in relation to time worked on DCC related activities

Directors' responsibility statement

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

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under the terms of Condition 30 of the Company's Regulatory Licence, the directors are required to prepare:

- a strategic report and directors' report for the regulatory accounts purposes as if the requirements in Part 15 of Companies Act applied.
- a Directors' Remuneration Report as if the Company was a quoted company and were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.
- a corporate governance statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

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

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

On behalf of the Board,

Richard McCarthy CBE
Chairman
25 July 2022

5. Independent auditor's report to the members of Smart DCC Ltd and Ofgem ("the Regulator")

1. Our opinion is unmodified

We have audited the Regulatory Financial Statements of Smart DCC Limited ("the Company") for the year ended 31 March 2022 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 2. The financial reporting framework that has been applied in their preparation is Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2022 have been properly prepared, in all material respects, in accordance with Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 10 May 2022 and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF (Revised) 'Reporting to regulators on regulatory accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

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

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

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

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

These matters were addressed, in the context of our audit of the Regulatory Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2021).

	The risk	Our response
Existence and Accuracy of costs £441.3milion (2021: £442.1million) **Risk vs 2021:** ◀▶	The Company is required to operate in accordance with the terms of the Smart Meter Communication Licence (the "Licence") which permits it to recharge certain costs to Service Users (the "customers"). Service Users are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters. The amount of total costs recognised in the Regulatory Financial Statements for the period and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised in the Regulatory Financial Statements. As such there is a risk that if costs are not accurately recorded within the Regulatory Financial Statements, revenue would also be misstated. Certain costs incurred by the Company are charged by Service Providers, who are companies contracted to provide services to Smart DCC, based on the achievement of milestones. The Company recognises these costs based on its estimate of the stage of completion of each milestone. There is a risk that recognition of costs (and therefore revenue) does not represent the actual stage of completion leading to an understatement or overstatement of cost.	**Our procedures included:** **Control testing** Testing relevant controls over expense recognition and recording in the Regulatory Financial Statements. **Tests of detail** For a sample of costs incurred in the period, agreeing the costs to source documentation (for example, invoices and/or contracts), in order to establish, whether the amounts were accurately recorded. Through the review of supporting documentation, assessed whether the costs recognised are consistent in nature with the provision of services under the Licence, based on Smart DCC's charging framework, and have been recognised in the correct accounting period; Where costs are charged by the Service Providers and recognised by Smart DCC based on the status of the milestones achievement at period end, obtained third party confirmations and agreed the level of completion of the milestone and related cost recorded in the accounting period to those third party confirmations.

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

Materiality for the Company Regulatory Financial Statements as a whole was set at £9.0million (2021: £9.0 million), determined with reference to a benchmark of revenue, of which it represents 2.1% (2021: 2.1%). We consider total revenue to be the most appropriate benchmark rather than a profit-based benchmark given that the Company has been set up not to generate a profit.

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

Performance materiality was set at 75% (2021: 75%) of materiality for the Regulatory Financial Statements, which equates to £6.75million (2021: £6.75million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

In addition, we applied materiality of £ 2.4million (2021: £2.4million), determined with reference to a benchmark of administrative expenses, of which it represents 2.1% (2021: 2.1%), and performance materiality of £1.8million (2021:

£1.8million) to administrative expenses for which we believe misstatements of lesser amounts than materiality for the Regulatory Financial Statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements in the Regulatory Financial Statements as a whole exceeding £0.45million (2021: £0.45million), and administrative expenses exceeding £0.12million (2021: £0.12million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

4. Going concern

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

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

- Losing the License due to a revocation event, service failure or reputational damage, putting future licence renewal at risk; and

- Threat to the Company delivering expected business performance.

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

Our procedures also included:

- Critically assessing assumptions in base case and downside scenarios relevant to liquidity, in particular in relation to risks by comparing to the entity' plans based on approved budgets and our knowledge of the entity and the sector in which it operates.

- We considered whether the going concern disclosure in note 2 to the Regulatory Financial Statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Financial Statements is appropriate;

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the Regulatory Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board meeting, audit and risk committee meeting minutes.

- Using analytical procedures to identify any unusual or unexpected relationships.

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

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

We also identified a fraud risk related to the existence and accuracy of costs in response to the regulatory requirements of complying with the Smart Meter Communication Licence, which permits it to recharge certain costs to Service Users (customers). Further detail in respect of the existence and accuracy of costs is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosures of emerging and principal risks and longer-term viability

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

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

- the directors' confirmation within the Viability Statement (page 44) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;

- the Principal Risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and

- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

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

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

- the directors' statement that they consider that the annual report and Regulatory Financial Statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;

- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the Regulatory Financial Statements, and how these issues were addressed; and

- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

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

Under the terms of Condition 30 of the Company's Regulatory Licence we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Company Regulatory Financial Statements are not in agreement with the accounting records and returns; or certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 67, the directors are responsible for: the preparation of the Regulatory Financial Statements in accordance with the Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein; such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

- Identify and assess the risks of material misstatement of the Company's Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are in adequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Regulatory Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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

Our opinion on the Regulatory Financial Statements is separate from our opinion on the Statutory Financial Statements of the Company for the year ended 31 March 2022 on which we reported on 25th July 2022, which are prepared for a different purpose. Our audit report in relation to the Statutory Financial Statements of the Company (our "Statutory audit") was made solely to the Company members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our Statutory audit work, for any Statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

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

Chartered Accountants
15 Canada Square
London E14 5GL

25 July 2022

6. Financial Statements

DCC Public

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Revenue	3	432,794	430,351
Cost of sales	5	(304,371)	(314,850)
Gross Profit		**128,423**	**115,501**
Administrative expenses	6	(126,250)	(113,620)
Operating profit		**2,173**	**1,881**
Depreciation	12	(1,777)	(1,752)
Finance income	9	7,554	11,761
Finance costs	9	(7,950)	(11,890)
Profit before taxation		–	–
Tax	10	–	–
Result for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year attributable to the owners of the Company		–	–

The notes on pages 82 to 99 form an integral part of the financial statements.

Statement of financial position as at 31 March 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Unbilled revenue due in more than one year	11	422,525	423,667
Property, plant and equipment	12	6,673	8,320
Total non-current assets		**429,198**	**431,987**
Current assets			
Trade and other receivables	13	132,487	182,432
Cash and cash equivalents	14	129,291	91,096
Total current assets		**261,778**	**273,528**
Total assets		**690,976**	**705,515**
Liabilities			
Current liabilities			
Trade and other payables	15	223,091	236,148
Deferred revenue		42,585	42,507
Lease liability	16	621	665
Total current liabilities		**266,297**	**279,320**
Non-current liabilities			
Payables due in more than one year	11	422,525	423,667
Lease liability	16	1,464	1,838
Other non-current liabilities		690	690
Total non-current liabilities		**424,679**	**426,195**
Total liabilities		**690,976**	**705,515**
Total net assets		–	–
Equity			
Share capital	18	–	–
Retained earnings		–	–
Total equity		–	–

The financial statements on pages 79 to 99 were approved and authorised for issue by the Board of Directors on 25 July 2022 and signed on its behalf by:

Richard McCarthy CBE, Chairman
25 July 2022

Smart DCC Limited
Company registered number: 8641679

The notes on pages 82 to 99 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 March 2022

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 April 2020	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2021 and 1 April 2021	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2022	–	–	–

Statement of cash flows for the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000
Net cash flows from operating activities	20	38,591	36,225
Net cash flows used in investing activities	20	–	–
Net cash flows used in financing activities	20	(396)	(129)
Net increase in cash and cash equivalents		**38,195**	**36,096**
Cash and cash equivalents at the beginning of the year		91,096	55,000
Cash and cash equivalents at the end of year	14	**129,291**	**91,096**

The notes on pages 82 to 99 form an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 March 2022

1. GENERAL INFORMATION

Smart DCC Limited is a private Company incorporated, domiciled and registered in England and Wales under the Companies Act 2006. The address of the registered office is 65 Gresham Street, London, England, EC2V 7NQ. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 7 to 44 but can be summarised as managing the delivery of services to Great Britain's energy industry that facilitates secure communications between energy systems and smart meters.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Company's financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards as modified by Condition 30 of the Company's Regulatory License.

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

b) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2022, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration of the current COVID-19 pandemic in the UK and the increase in inflation driven by the conflict in Ukraine, for the reasons set out below.

As at 31 March 2022, the Company had total assets less current liabilities of £424.7m. Liquidity as at that date was £129.3m, made up of cash and cash equivalents.

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

Management has modelled several plausible downside case scenarios that cover the period to 31 March 2024. As the Company is entirely funded by SEC Parties, who are also impacted by the pandemic, the plausible downside scenarios focus on the impact of lack of payment by customers. The Directors consider the scenarios to be extremely prudent and unlikely to occur. However, by considering such cases Management has ensured that mitigations the Company has in place would be sufficient to ensure adequate liquidity in extreme circumstances.

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

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

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

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

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

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

In addition, the Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15.0m (2021: £15.0m).

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

1. The six largest[12] customers failing to pay one months' invoice in the same month
2. The largest customer failing to pay invoices for three consecutive months
3. The largest customer failing to pay invoices for six consecutive months
4. Several medium[13] sized customers failing to pay invoices for the same three consecutive months
5. All smaller[14] customers failing to pay invoices for the same six consecutive months

In all scenarios it has been assumed that failure to pay would arise from January 2023, this is when the cash forecast has started to reduce.

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

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

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

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

At the same time as the approval and signing of this Annual Report the Directors have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. Further detail is contained in the Strategic Report on pages 7 to 44.

c) Functional and presentational currency

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

d) Use of judgements and estimates

In preparing these financial statements, Management has made judgements and estimates that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The judgements considered significant are set out on page 56 within the Audit and Risk Committee report.

14 Determined by value of monthly invoices
15 Customers just outside the top six largest customers
16 Customers with monthly invoices less than £0.3m

e) Changes in accounting policies

A number of new or amended standards are effective from 1 January 2021 but they do not have a material effect on the Company's financial statements.

f) Revenue

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

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

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

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

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

g) Taxation

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

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

h) Recognition of costs for work completed against contracts

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

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

i) Financial instruments

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

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

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

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

iii. Derecognition

Financial assets

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

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

Financial liabilities

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

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

iv. Impairment

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

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

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

v. Offsetting

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

j) Leases

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

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

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

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

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

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

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

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

i. the amount of the initial measurement of lease liability;

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

iii. any initial direct costs; and

iv. restoration costs.

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

k) Property, plant and equipment

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

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

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2022 £'000	2021 £'000
Continuing operations		
Charges to customers (excluding amounts relating to finance	510,775	584,488
Accrued income	(77,981)	(154,137)
	432,794	**430,351**

Accrued income represents revenue earned in the year for work completed by our key Service Providers in line with contractual obligations, to be billed to customers in future periods, offset against amounts billed to customers for revenue earned in previous periods. In 2022, the value of new work completed is significantly lower than in previous years as set-up related activity is reducing on the SMETS2 programme.

Debts incurred as a result of supplier defaults during the period amount to £2.4m and has been recovered from customers through charges during the financial year in accordance with Section J of the SEC.

Contract balances

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

	2022 £'000	2021 £'000
Unbilled receivables due >12 months	422,525	220,843
Trade receivables	117,468	104,704
	539,993	**325,548**

4. OPERATING SEGMENTS

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

All revenue, result, assets and cash flows arise from the provision of Core Communication Services under the Mandatory Business of the Company, as set out in the Licence, therefore there is one segment for revenue and results.

Geographical information (external customers)

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

Information about major customers

During the year the Company earned revenue from 162 customers. Of these, two customers, British Gas Trading Limited and E.ON Energy Solutions Limited, individually each contributed to more than 35% of revenue.

5. COST OF SALES

	2022 £'000	2021 £'000
External costs	269,401	273,621
Pass through costs	25,843	32,788
Other external costs	9,127	8,441
	304,371	**314,850**

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

6. ADMINISTRATIVE EXPENSES

	2022 £'000	2021 £'000
Staff costs	58,918	55,576
Margin and gain share	24,980	14,583
Professional fees	19,102	16,784
IT operating expenses	9,594	13,268
Corporate overhead	8,403	8,417
Office accommodation	2,711	3,200
Recruitment costs	1,960	1,414
Travel and subsistence	139	82
Other costs	443	296
	126,250	**113,620**

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

7. AUDITOR'S REMUNERATION

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

	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the annual accounts	97	67
Total audit fee for statutory and regulatory accounts	**97**	**67**
Fees payable to the Company's auditor for other services to Other assurance services	28	30
Total non-audit fee	**28**	**30**

Total fees of £93.8k were due to the auditor as at 31 March 2022 (2021: £77.4k). Other assurance services include review of a certificate of financial resources and carrying out of a set of Agreed Upon Procedures, as required under the terms of the Licence.

8. STAFF COSTS

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

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

	2022	2021
Operations	189	208
Programme management	173	161
Finance, Commercial, Legal and Facilities	98	106
Technology	21	21
Other	110	101
	591	**597**

Their aggregate remuneration (including overhead) comprised:

	2022 £'000	2021 £'000
Wages and salaries	52,669	50,305
Severance pay	72	95
Social security costs	4,449	4,164
Other pension costs	1,728	1,012
	58,918	**55,576**

9. FINANCE INCOME AND COSTS

	2022 £'000	2021 £'000
Finance income		
Recovery of finance costs from customers	7,554	11,761
Total finance income	**7,554**	**11,761**
Finance costs		
Finance costs on milestone repayments	(7,554)	(11,689)
Lease interest expense	(16)	(12)
Finance bond interest and charges	(372)	(178)
Bank service charges	(11)	(11)
Total finance costs	**(7,953)**	**(11,890)**

10. TAX

	2022 £'000	2021 £'000
Current tax	–	–
Deferred tax	–	–
	–	–

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 19% (2021: 19%). No tax amounts have been recognised directly in equity during the year (2021: £nil).

11. NON-CURRENT ASSETS AND LIABILITIES

Included in both non-current assets and non-current liabilities are amounts of £422.5m (2021: £423.7m), representing amounts due from customers and due to Service Providers respectively.

	2022 £'000	2021 £'000
Unbilled receivables in respect of milestones	173,807	220,843
Unbilled receivables in respect of communication hubs	248,718	202,824
	422,525	**423,667**

	2022 £'000	2021 £'000
Supplier payables in respect of milestones	173,807	220,843
Supplier in respect of communication hubs	248,718	202,824
Provision for lease hold restoration costs	690	690
	423,215	**424,357**

At 31 March 2022, our Service Providers had achieved multiple contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, hence a non-current liability of £173.8m (2021: £220.8m) has been recognised, representing amounts payable after 31 March 2022.

These amounts will be recoverable from customers and therefore, a corresponding amount of £173.8m (2021: £220.8m) has been recognised as a non-current asset.

In addition, our Service Providers have been providing our customers with SMETS2 communication hubs. These hubs are installed in consumer homes and allow our customers to use our network. The cost of a communication hub is charged to the DCC by our Service Providers over time, and similarly we recover the value of a communications hub to our customers over the same time period at the same value. As at the end of the reporting period we have recognised the amounts payable over 12 months for communication hubs accepted by customers at £248.7m (2021: £202.8m).

These amounts will be recoverable from customers and therefore, a corresponding amount of £248.7m (2021: £202.8m) has been recognised as a non-current asset.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Land and buildings £'000	Total £'000
Cost or valuation			
At 31 March 2021	8,380	3,288	11,668
Additions	–	130	130
Transfers	–	–	–
Disposals	–	–	–
At 31 March 2022	**8,380**	**3,418**	**11,798**
Depreciation			
At 31 March 2021	(2,323)	(1,025)	(3,348)
Charge for the period	(1,275)	(502)	(1,777)
Eliminated on disposal	–	–	–
At 31 March 2022	**(3,598)**	**(1,527)**	**(5,125)**
Carrying amount			
At 31 March 2021	6,057	2,263	8,320
At 31 March 2022	**4,782**	**1,891**	**6,673**

At year end, the net carrying amount of land and buildings was £1.9m (2021: £2.3m) which relates to the lease of Brabazon House, Manchester. The lease obligations are disclosed in note 16.

13. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Unbilled receivable for milestones due in less than 12 months	72,580	103,063
Unbilled receivable for communication hubs due in less than 12 months	44,797	31,074
Accrued income	13,340	43,213
Trade receivables due from customers	90	1,641
Prepayments	200	1,960
Other receivables	1,480	1,481
	132,487	**182,432**

Unbilled receivables of £117.4m (2021: £134.1m) is the amount to be recovered in the next year from customers for work completed as at the reporting date, and for communication hubs accepted by customers as at the reporting date. The corresponding amount due to Service Providers less payments in advance is recognised in trade payables (see note 15). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Accrued income represents amounts due from customers for the month of March 2022 but billed in April 2022, therefore not received at the reporting date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month. The average credit period taken on sales of service is five days from receipt of invoice.

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

14. CASH AND CASH EQUIVALENTS

	2022 £'000	2021 £'000
Cash at bank	105,818	71,962
Credit cover deposits from customers	23,473	19,134
	129,291	**91,096**

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

15. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables for milestones due in less than 12 months	72,580	100,798
Trade payables for communication hubs due in less than 12 months	44,796	31,074
Accruals	36,771	37,188
Trade payables due to customers	24,042	19,134
Related party payable	31,016	21,963
Trade payables due to suppliers	12,488	9,837
VAT payable	1,398	16,154
	223,091	**236,148**

Amounts due in less than one year for milestones and communication hubs are amounts that are due to be paid in the next year to Service Providers in respect of payments due on in line with supplier contracts at the reporting date. These amounts will be recoverable from customers and therefore an amount of £117.4m (2021: £134.1m) has been recognised in trade and other receivables (see note 13).

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

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

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

16. LEASE LIABILITY

	Carrying amount £'000
At 31 March 2021	2,503
Lease liability addition	–
Interest charge	16
Repayments made during the period	(434)
At 31 March 2022	**2,085**
Of which:	
Lease liability due in less than 12 months	621
Lease liability due in more than 12 months	1,464
	2,085

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

17. OFF BALANCE SHEET ARRANGEMENTS

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £1,030.1m (2021: £1,403.8m). This represents payments that the Company is obliged to make in for contractually committed operational charges to Service Providers in line with their contracts from the date of services going live.

18. SHARE CAPITAL

	2022 £'000	2021 £'000
Authorised, issued and fully paid:		
1 ordinary share of £1 each	–	–

19. FINANCIAL INSTRUMENTS

Categories of financial instruments:

	2022 £'000	2021 £'000
Financial Assets at amortised cost		
Unbilled revenue due in more than one year	422,525	423,667
Trade and other receivables	132,487	182,432
Cash and bank balances	129,291	91,096
	684,303	**697,195**

	2022 £'000	2021 £'000
Financial Liabilities at amortised cost		
Payables due in more than one year	422,525	423,667
Trade and other payables	223,091	236,148
Lease liability	2,085	2,503
	647,701	**662,318**

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

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

	2022 £'000	2021 £'000
Contractual cash flows		
1 year or less	122,701	128,187
1 to 2 years	121,639	95,350
2 to 5 years	231,950	231,204
Beyond 5 years	80,385	78,297
Total	**556,675**	**533,038**
Amounts due in more than one year	422,525	423,667
Amounts due in less than one year	117,378	131,872
Carrying amount	**539,903**	**555,539**

FINANCIAL RISK MANAGEMENT

Capital risk

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Market risk

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

20. CASH FLOW STATEMENT

	2022 £'000	2021 £'000
Profit for the year	–	–
Adjust for:		
Net finance costs	396	129
Depreciation	1,777	1,752
Other non-cash movements	3,478	(843)
Decrease/(Increase) in trade and other receivables	31,424	3,987
Increase in trade and other payables	328	20,748
Increase in deferred revenue	1,188	10,452
Net cash from operating activities	**38,591**	**36,225**
Net cash used in investing activities	**–**	**–**
Recovery of finance costs from customers	7,554	11,761
Finance costs on milestone repayments	(7,950)	(11,890)
Net cash used in financing activities	**(396)**	**(129)**

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

21. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

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

Key Management Personnel

The total amounts for Directors' remuneration were as follows:

	2022 £'000	2021 £'000
Salaries, fees, bonuses and benefits in kind	1,105	773

Included in the amount shown above is £405.7k (2021: £369.1k) in respect of qualifying services for the highest paid Director which was all paid as salary, bonus and benefits. There was £12.0k (2021: £12.0k) paid in pension contributions. The Directors of the Company are considered to be the Key Management Personnel.

Balances and transactions with other group undertakings

	2022 £'000	2021 £'000
Amounts included in operating profits	103,338	90,608
Amounts owed to related parties	31,016	21,963
Amounts owed from related parties	–	–

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

22. EVENTS AFTER BALANCE SHEET DATE

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

DCC Public

Glossary

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