



# Corporate

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# 1. Corporate Management Cost

## Summary

### What is this and why is it important?

The Corporate Management cost centre has existed since the 2013 Licence Application Business Plan (LABP) and includes some of DCC's key enabling functions (Corporate Affairs, Customer Experience, Strategy and Regulation and Licence Renewal). These functions are an essential part of how we operate in a compliant way with our licence obligations, and can respond to the evolving needs of government, customers and other stakeholders.

### RY23/24 activities and costs

Total costs were £21.8m against an Ofgem baseline of £15.3m. Most of this variance is accounted for by the costs to deliver HM Treasury Green Book business cases for all our major investments, and to support Ofgem's licence renewal programme.

DCC's Business Case Centre of Excellence has delivered a large number of high-quality submissions to DESNZ. In RY23/24, 26 Treasury Green Book business case stage submissions were completed with confirmed or expected Department non-objection, enabling DCC to complete contract and programme implementation to business plan target. Deploying expert third party advice on building capability in such a crucial activity for government brings expertise and assurance and is entirely consistent with how other public sector organisations manage Green Book business cases.

This capability has helped DCC to achieve a significant reduction in business case approval cycle-times compared against the previous 4G Comms hub and Network baseline, achieving over 80% first-time Department 'non-objection' success rate.

All organisations, including those in the public sector, use external support to provide independent expertise and assurance to specific activities where those skills do not exist in house, or to provide flexible resourcing to cover the peak workload demands for short-term assignments. As such, DCC has used external services to support activities such as Licence Renewal work, preparation for moving to ex ante regulation and to support our price control submission, consistent with common practice for all regulated companies, and indeed regulators.

### Future activities and costs

With DCC's licence period coming to an end in September 2025, the business has focussed on supporting Ofgem with the complex range of activities needed to extend the current licence, design the Successor Licence, run an RFP and prepare for Business Handover. We are expecting the complexity and range of activities to increase throughout RY24/25 as Ofgem launch the RFP for the Successor Licence and we move towards an ex-ante price control regime.

This will continue to require significant input from across the Corporate Management cost centre and the wider organisation, as well as dedicated advisory support. We have worked closely and transparently with Ofgem and consider that the incurred costs to support its move to an ex-ante Price Control, Licence Renewal and Business Handover are value for money and clearly justified. Deploying expert external advice on significant changes to regulatory frameworks is standard across all the network companies Ofgem regulates, and to disallow such costs would not be reasonable.

## 1.1. Corporate Management – RY23/24 Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the programme purpose and our resource and non-resource costs.

#### Cost Centre Variance by GL

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

Baseline			RY23/24	RY24/25	RY25/26
<b>Total Corporate Management</b>		<b>£m</b>	<b>15.274</b>	<b>14.684</b>	<b>-0.000</b>
Payroll costs	PR	£m	8.161	8.619	-0.000
Non-payroll costs	NP	£m	0.236	0.251	-
Recruitment	RC	£m	0.107	-	-
Accommodation	AC	£m	5.887	4.930	-
External services	ES	£m	0.666	0.666	-
Internal services	IS	£m	0.218	0.218	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	-	-	-
Office Sundry	OS	£m	-	-	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Total Corporate Management</b>		<b>£m</b>	<b>21.761</b>	<b>18.688</b>	<b>18.732</b>
Payroll costs	PR	£m	7.779	9.805	11.536
Non-payroll costs	NP	£m	0.378	0.269	0.087
Recruitment	RC	£m	0.420	0.007	0.001
Accommodation	AC	£m	5.592	5.259	5.281
External services	ES	£m	7.116	3.225	1.705
Internal services	IS	£m	0.403	0.102	0.103
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.073	0.021	0.021
Office Sundry	OS	£m	-	-	-
Variance			RY23/24	RY24/25	RY25/26

Total Corporate Management		£m	6.487	4.004	18.732
Payroll costs	PR	£m	-0.382	1.185	11.536
Non-payroll costs	NP	£m	0.143	0.018	0.087
Recruitment	RC	£m	0.313	0.007	0.001
Accommodation	AC	£m	-0.295	0.329	5.281
External services	ES	£m	6.450	2.559	1.705
Internal services	IS	£m	0.185	-0.116	0.103
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.073	0.021	0.021
Office Sundry	OS	£m	-	-	-

### Cost Centre Variance by Sub-Team

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

Baseline			RY23/24	RY24/25	RY25/26
Corporate Management Payroll Costs		£m	8.161	8.619	-
Corporate Management		£m	0.704	0.704	-
Customer Experience		£m	1.068	1.667	-
Executive and Board		£m	0.717	0.717	-
Economic Regulation		£m	0.718	0.718	-
Licence Renewal		£m	-	-	-
Regulatory Affairs Office		£m	0.283	0.251	-
Regulatory Design and Delivery		£m	0.936	0.936	-
Regulatory Governance		£m	0.425	0.425	-
Regulatory Strategy and Performance Management		£m	0.767	0.722	-
Strategic Customer Engagement		£m	1.293	1.229	-
External Communications		£m	1.250	1.250	-
Transformation		£m	-	-	-
Regulatory Support and Economic Incentives		£m	-	-	-
Incurred			RY23/24	RY24/25	RY25/26
Corporate Management Payroll Costs		£m	7.779	9.805	11.536
Corporate Management		£m	0.499	0.506	0.594
Customer Experience		£m	1.031	1.622	1.881
Executive and Board		£m	0.817	0.805	0.920
Economic Regulation		£m	0.665	0.484	0.593

Licence Renewal	£m	0.230	1.326	1.483
Regulatory Affairs Office	£m	0.300	0.181	0.215
Regulatory Design and Delivery	£m	0.881	0.929	1.135
Regulatory Governance	£m	0.002	-	-
Regulatory Strategy and Performance Management	£m	0.747	0.815	0.971
Strategic Customer Engagement	£m	1.380	1.778	2.127
External Communications	£m	0.871	0.765	0.910
Transformation	£m	0.005	-	-
Regulatory Support and Economic Incentives	£m	0.352	0.594	0.707
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>
<b>Corporate Management Payroll Costs</b>	<b>£m</b>	<b>-0.382</b>	<b>1.186</b>	<b>11.536</b>
Corporate Management	£m	-0.205	-0.198	0.594
Customer Experience	£m	-0.037	-0.045	1.881
Executive and Board	£m	0.100	0.088	0.920
Economic Regulation	£m	-0.053	-0.234	0.593
Licence Renewal	£m	0.230	1.326	1.483
Regulatory Affairs Office	£m	0.017	-0.070	0.215
Regulatory Design and Delivery	£m	-0.055	-0.007	1.135
Regulatory Governance	£m	-0.423	-0.425	-
Regulatory Strategy and Performance Management	£m	-0.020	0.093	0.971
Strategic Customer Engagement	£m	0.087	0.549	2.127
External Communications	£m	-0.379	-0.485	0.910
Transformation	£m	0.005	-	-
Regulatory Support and Economic Incentives	£m	0.352	0.594	0.707

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and Structure

The Corporate Management cost centre in RY23/24 included primary regulatory and strategy functions and broader corporate capabilities, such as communications, business case authoring and customer engagement. The capabilities can broadly be classified into four different areas:

- **Executive and Board** – providing leadership to the organisation, maintaining high standards of corporate governance in accordance with the UK Corporate Governance Code, and ensuring compliance with DCC policies.
- **Strategy and Regulation** – including price control, economic incentives, preparation of regulatory documents (including response to industry consultations), engagement in regulatory forums, consideration of the future regulatory regime, support to the Board and CEO in developing our corporate strategy, regulatory stakeholder engagement and code development.

In RY23/24, External Communications moved to the Strategy and Regulation sub-team as part of an organisational restructure.

- **Customer Experience** - following a restructuring of the Corporate Management cost centre in 2022, Strategic Customer Engagement and much of the Regulatory Stakeholder Engagement function was transferred from Strategy and Regulation to Customer Experience, a newly combined team reporting into a newly created Executive position, the Chief Customer Officer. This superseded the former Executive position of Chief Risk and Improvement Officer. All activities formerly under the Chief Risk and Improvement Officer were transferred to the Finance cost centre. The full function overseen by the Chief Customer Officer was renamed to Customer Experience in recognition of the function's broader responsibilities regarding the Business Case Centre of Excellence and the Partnerships team.
- **Licence Renewal** – as the end of the current licence term approaches, DCC has provided extensive support to Ofgem's policy proposals on licence extension, competition for the next licence and the move to an ex-ante price control regime.

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

Corporate Management also includes several corporate costs including:

- Accommodation costs including rent, rates, office supplies and equipment.
- Test Labs.
- Price Control delivery for the organisation.
- Cross DCC transformation activities.

### Key events and objectives driving activity and cost

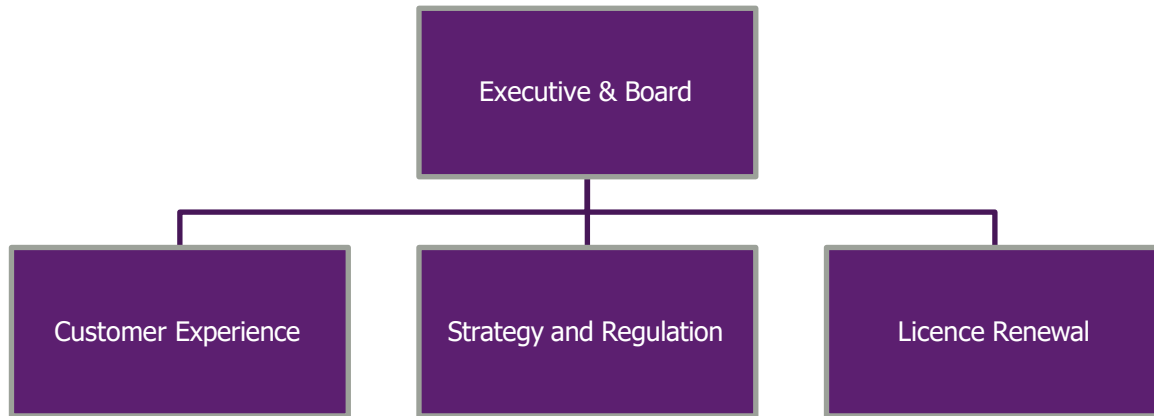
The main deliverables, and therefore the drivers of costs over the course of RY23/24 include:

- Delivering new capability within DCC to create high quality business cases which align to the HMT Green Book approach and meet DESNZ and customers' expectations.
- Continuing to implement and develop the restructured Customer Experience function, including expanding capability to manage the increasing number of "Other" SEC Parties.
- Managing DCCs interactions through SEC governance and ensuring each of DCCs programmes has a robust customer engagement plan.
- Extensive engagement with Ofgem to deliver a wide range of compliance-related activities.
- Delivery of a significantly improved annual Price Control submission.
- Take a leading role in supporting Ofgem's Licence renewal and Licence extension work programmes.
- Preparation of a detailed Business Handover Plan.
- As required by the licence, responding to Capita data / information requests to support their engagement with Ofgem on the Licence extension.
- Delivery of Business and Development Plan.

### 1.2.1. Cost Centre Structure

The structure of the Corporate Management cost centre has remained the same over this reporting period as shown in the figure below.

**Figure 1: Current and forecast structure of Corporate**



The cost centre structure is set out in further detail in the table below.

**Table 1: Description of Corporate Management Functional**

Functional structure reported	Functional structure in RY23/24	Description
Executive and Board	Executive and Board	<ul style="list-style-type: none"> <li>Includes CEO and Chief of Staff</li> <li>Board Secretariat</li> <li>Management of Non-Executive Directors</li> <li>Central PA function</li> </ul>
Customer Experience	Customer Experience	<ul style="list-style-type: none"> <li>Chief Customer Officer</li> <li>Strategic Customer Engagement activities</li> <li>Development of DCC's Business Cases, including the Centre of Excellence</li> <li>Developing improved process to onboard new SEC parties through the Partnerships team</li> </ul>
Strategy and Regulation	Strategy and Regulation	<ul style="list-style-type: none"> <li>Chief Strategy and Regulation Officer</li> <li>Economic Regulation including Price Control</li> <li>Regulatory Support, Compliance and Engagement</li> <li>Regulatory Strategy</li> <li>External Communications</li> </ul>
Executive and Board	Licence Renewal	<ul style="list-style-type: none"> <li>Chief Licence Renewal Officer</li> <li>Policy development for Licence extension and renewal</li> <li>Supporting Ofgem's proposed move to ex ante Price Control</li> <li>Business Handover Planning and delivery</li> <li>Support for Ofgem's RFP for the Successor Licensee</li> </ul>



## 1.3. Cost Centre

### 1.3.1. Variance by GLs in the RIGs

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

**Table 2: Cost centre variance by GL**

	Total Corporate Management			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Corporate Management</b>		<b>£m</b>	<b>15.274</b>	<b>14.684</b>	<b>-0.000</b>
<b>Total Incurred</b>	<b>Total Corporate Management</b>		<b>£m</b>	<b>21.761</b>	<b>18.688</b>	<b>18.732</b>
<b>Total Variance</b>	<b>Total Corporate Management</b>		<b>£m</b>	<b>6.487</b>	<b>4.004</b>	<b>18.732</b>
	Payroll costs	PR	£m	-0.382	<b>1.185</b>	<b>11.536</b>
	Non-payroll costs	NP	£m	0.143	0.018	0.087
	Recruitment	RC	£m	<b>0.313</b>	0.007	0.001
	Accommodation	AC	£m	-0.295	<b>0.329</b>	<b>5.281</b>
	External services	ES	£m	<b>6.450</b>	<b>2.559</b>	<b>1.705</b>
	Internal services	IS	£m	<b>0.185</b>	-0.116	0.103
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	0.073	0.021	0.021
	Office Sundry	OS	£m	-	-	-

### 1.3.2. Payroll costs variance

Total payroll variance in RY23/24 was a cost saving of £0.382m. The table below provides an overview of the payroll variances by sub-team in the Corporate Management cost centre. As is the case with most of DCC's sub-teams, there is very little baseline in the final year of the forecast because the costs revert to LABP.

**Table 3: Cost Centre variance by sub-**

Variance			RY23/24	RY24/25	RY25/26
<b>Corporate Management Payroll Costs</b>	<b>£m</b>		<b>-0.382</b>	<b>1.186</b>	<b>11.536</b>
Corporate Management	£m		-0.205	-0.198	<b>0.594</b>
Customer Experience	£m		-0.037	-0.045	<b>1.881</b>
Executive and Board	£m		0.100	0.088	<b>0.920</b>
Economic Regulation	£m		-0.053	-0.234	<b>0.593</b>
Licence Renewal	£m		<b>0.230</b>	<b>1.326</b>	<b>1.483</b>
Regulatory Affairs Office	£m		0.017	-0.070	<b>0.215</b>
Regulatory Design and Delivery	£m		-0.055	-0.007	<b>1.135</b>
Regulatory Governance	£m		-0.423	-0.425	-
Regulatory Strategy and Performance Management	£m		-0.020	0.093	<b>0.971</b>
Strategic Customer Engagement	£m		0.087	<b>0.549</b>	<b>2.127</b>

External Communications	£m	-0.379	-0.485	0.910
Transformation	£m	0.005	-	-
Regulatory Support and Economic Incentives	£m	0.352	0.594	0.707

## 1.4. Drivers for Variance –

The total incurred Payroll cost for the Corporate Management cost centre was below Ofgem's baseline in RY23/24.

During the year the Strategy and Regulation directorate restructured with the aim of providing better support internally to the three stages of the Contract Management lifecycle (Concept to Contract, Contract to Market and Market to Retire) and to better support our engagement activities with key stakeholders, particularly Ofgem and the Department. A new sub-team was also created – Regulatory Support and Economic Incentives. This was previously embedded within Regulatory Governance but has been separated out and assigned its own cost codes. The net change is a negative variance in RY23/24, an immaterial variance in RY24/25 and a small material variance in RY25/26 caused by a reduction in the baseline while the incurred costs remain flat. Finally, the Corporate Affairs team was split in two with External Communications moving to Strategy and Regulation and Internal Communications moving to the People team (covered within the Finance and People chapter).

Licence Renewal has its own cost code resulting in costs now being reported in a more disaggregated manner. All of these costs appear as a variance as there is no baseline.

In the final year of the forecast, the Executive and Board team is showing a variance predominantly because the baseline is flat, but the resource costs increase in line with inflation.

Strategic Customer Engagement is showing a material positive variance in the two forecast years. The reasons for this are explained below.

### 1.4.1. Licence Renewal

The current Licence will remain in force until 22 September 2025 unless extended. To allow sufficient time to complete the design of the Successor Licence, run an effective procurement and facilitate an orderly transition if a new shareholder is identified, in RY23/24 Ofgem indicated it will need to extend the existing Licence by 12-36 months. As explained in the RY22/23 submission, this has meant DCC has a range of additional activities it must resource.

Smart DCC has an obligation to support Ofgem in the design of the successor Licence and the procurement of a new shareholder. DCC is responsible for the preparation and execution of a smooth transition to a new Licence holder should Capita choose not to bid for the Licence or if they are unsuccessful in the procurement process. DCC is also required to support its shareholder Capita to implement any changes Ofgem proposes during a licence extension.

There are three main workstreams within the licence renewal programme:

1. Licence extension – this workstream is led and primarily resourced by Capita with some support from DCC. Capita are negotiating the length and terms of the licence extension with Ofgem. DCC support to this workstream consists of financial information to support Capita modelling of different margin and overhead scenarios, and assessment of the risks associated with ex-ante and changes to the Board. Whilst Capita will negotiate with Ofgem, the DCC Board must review the final package and determine whether it is deliverable.
2. The transition to ex-ante price control by April 2025 – in RY23/24, this workstream was led by the DCC acting CFO and supported by one senior consultant programme director and two consultancy resources with experience of delivering ex ante Price Controls. It encompasses the design of the new ex-ante price control regime for the successor licence period and the necessary operational changes required to deliver it. It also includes engagement with, and support to Capita to help support Licence extension discussions. For clarity, DCC's existing Price Control team is still responsible for delivering the ex-post price control during the transition period and could not have absorbed the ex-ante work. Ongoing responsibility for ex-ante will become the responsibility of the Strategy and Regulation function in RY24/25.
3. The Successor Licence – this workstream encompasses the design of the Successor Licence. This involves preparation for and support to Ofgem and potential bidders during licence re-procurement and the transition to a new licence holder should Capita choose not to bid or are unsuccessful in the procurement. Whilst Capita will need to input into the DCC handover plan, any discussions / thinking around the detailed future design or the procurement of the licence must be kept separate to avoid Capita gaining any unfair competitive advantage if it decides to bid.

### Activities driving change in resource in RY23/24

The programme of Licence Renewal activities (covering the three areas above) has no baseline and consequently all expenditure appears as a variance. In RY23/24 the £0.23m of variance is expenditure on the Chief Licence Renewal Officer and support from a fixed term contractor who previously was DCC's interim Director of Economic Regulation and was moved to the Licence Renewal team to maximise synergies and avoid additional recruitment costs.

Ofgem has had full visibility of the activities that DCC has been working on to support Ofgem's Licence Renewal activities, which include:

- The first draft of the Business Handover Plan.
- A stakeholder consultation on the Plan and a response and a final version of the Plan for submission to Ofgem.
- A wide range of policy papers on the future scope and governance of the DCC.
- Comprehensive mapping of the key DCC contracts that will need to be novated to a new licensee or brought in house.
- Mapping of the contracts and services provided by Capita and an exit plan for each of these.
- Building and populating a data room to support the Ofgem RFP for the Successor Licence.
- Stakeholder engagement and briefing.

### Activities driving change in resource in RY24/25 and RY25/26

In line with broader efforts to reduce external service spend, we are recruiting a number of permanent members of staff to support the crucial licence renewal work over the next two years. In RY24/25 we are planning to recruit the following members of staff to support the Chief Licence Renewal Officer:

- 3 x Director – One Policy Development Director to support Ofgem in the design of the Successor Licence. One Programme Director to manage the overall Licence Renewal Programme and coordinate across all three workstreams outlined above. One Transition Director to oversee the development and delivery of the Business Handover Plan and associated activities.
- 4 x Manager – One Policy Development Manager to prepare policy papers and consultation responses. One Programme Manager to support the delivery of the overall Licence Renewal Programme and support the associated Governance processes. One Transition Manager to support delivery of the Business Handover Plan and transition governance. One Business Support Manager to oversee business planning, recruitment and corporate reporting.
- 8 x SMEs – covering commercial, enterprise IT, finance, HR, communications and regulations. These individuals will develop the detailed contents of the Business Handover and subsidiary documents, populate the data room, answer bidder questions and deliver the separation from Capita and transition to the new licence holder.

We have shared our resourcing plans and organisational structure with Ofgem and our budgetary plans with SEC parties.

As above, responsibility for delivering the ex-ante Price Control moved to the Strategy and Regulation function in June 2024.

#### 1.4.2. Customer Experience

The Customer Experience function headed by the Chief Customer Officer leads on:

- Engaging DCCs customers on DCCs strategy and programme portfolio.
- Ensuring DCC delivers quality engagement through SEC and DESNZ governance forums and directly with customers.
- Managing DCC's pipeline of Licence Condition 16-compliant Business Cases (LC16).
- Enabling prospective new DCC users to understand current services and onboard to the system.

The team has three main areas of activity:

- Business Case Development.
- Strategic Customer Engagement.
- On and off boarding DCC users, across 8 user roles and building out service capability for users via publicly funded innovation projects.

The function is comprised of three sub-teams: Strategic Customer Engagement, Business Case Development and Partnerships and Projects. However, for legacy reasons, cost information related to these sub-teams is aggregated into two as follows:

- **Customer Experience** – for the purposes of the Price Control submission, this includes:
  - Chief Customer Officer
  - Business Case Development team
  - Partnerships and Projects team
- **Strategic Customer**
  - sub-team responsible for engagement with industry stakeholders.

As can be seen from the table above, the Customer Experience sub-team is only variant in RY25/26. We are not forecasting an increase in headcount, or a material increase in base costs. The increase is the result of a c.4% annual inflation increase plus a small increase in costs due to lower resource allocation to programmes in later years (as programme requirements become less clear further into the future).

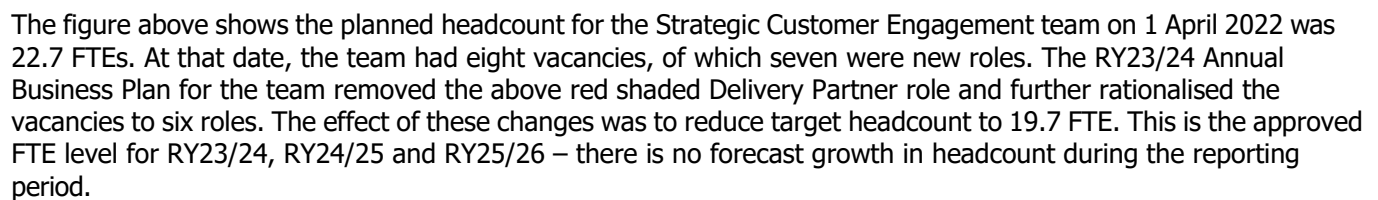
### 1.4.3. Strategic Customer Engagement

The Strategic Customer Engagement team is focussed on ensuring DCC's customers have a clear and common understanding of DCCs strategy, the changes we are delivering and ensuring customers have sufficient opportunity to input and shape what changes are needed and how these changes are delivered. The team also manages DCC's input to the SEC governance arrangements and delivering key customer meetings such as the Quarterly Finance Forum.

The main activities for the Customer Engagement team were as follows:

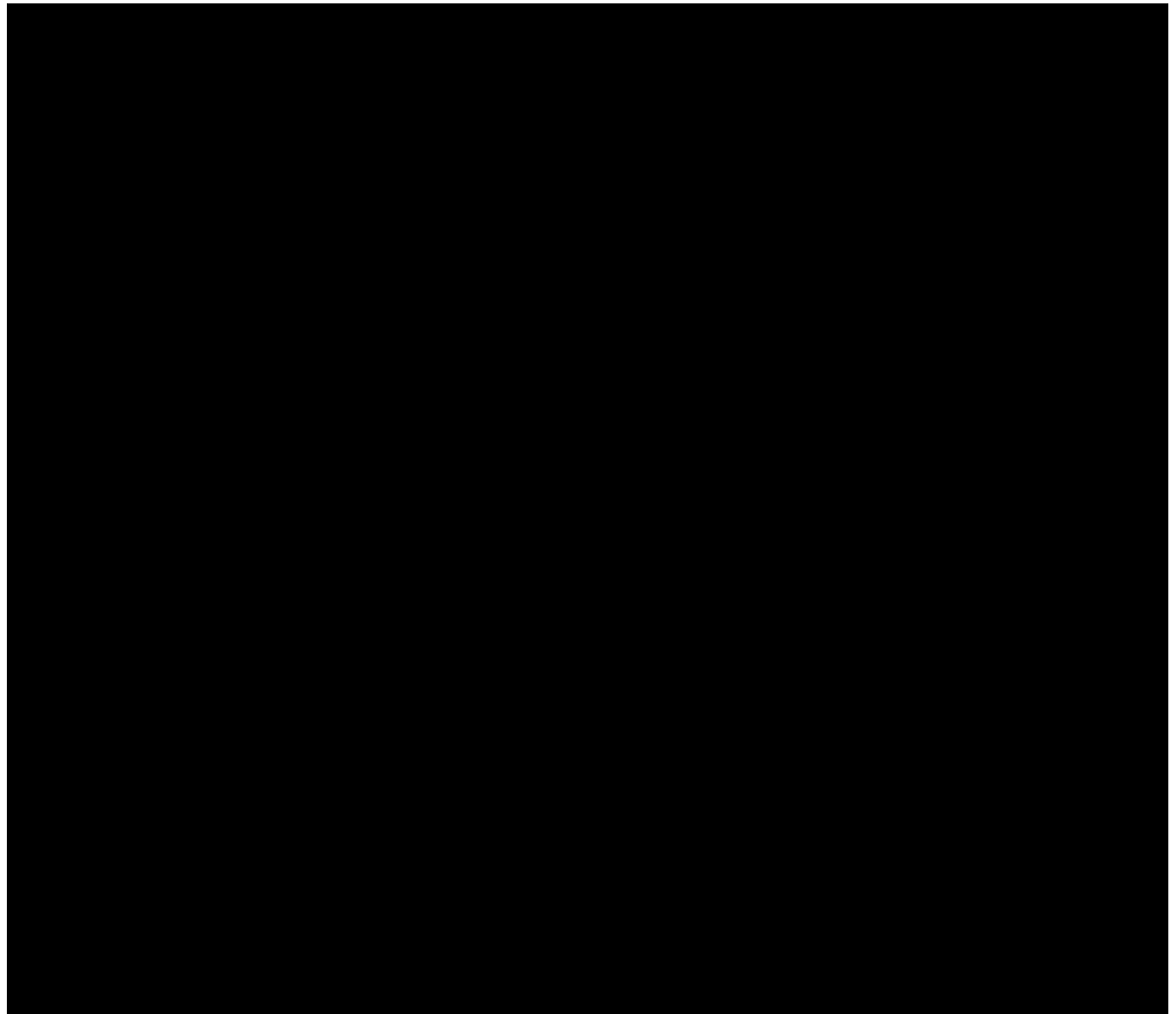
- Supporting engagement on 14 programmes within DCC's portfolio, ensuring customers' views are reflected in DCCs decision-making.
- Managing DCC's input to all SEC governance forums, ensuring all DCC agenda items have a clear purpose and are accompanied by material which meets customers' quality expectations.
- Leading various DCC led engagement meetings such as the Quarterly Finance Forum (QFF) and arranging customer events such as workshops on key programme topics.
- Managing reporting to Ofgem and DESNZ on Customer engagement across DCC for OPR and 4G CH&N BMPPA. Report writing for RY23/24 has commenced, with positive feedback from customers received to date via SECAS.
- Risk management and standardising DCC's approach to engagement through development of policy, processes and approach. In RY23/24, this has included inputting into DCC's Programme Framework development, DCC's Procurement Strategy and Business Case process to ensure a consistent approach to customer engagement is codified across the business.

Ofgem has previously challenged DCC on the number of FTEs and costs associated with the Strategic Customer Engagement team and expressed concern that it appears to have grown in size. Providing a narrative reconciliation of costs and roles across the year will not provide the information Ofgem needs to assess the economy, efficiency and value for money of the payroll costs. To help Ofgem's understanding that the team has not grown in FTE (and has in fact stayed stable over the last two years and is expected to do so in the forecast years) the figure and tables below show the organisational structure for the Strategic Customer Engagement team on 1 April 2022 and how this translates to headcount numbers in RY23/24, Ry24/25 and RY25/26.



**Table 4: Employee Data for Strategic Customer Engagement Team for RY**

[illegible]



Note the total cost of the above roles during RY23/24 sums to £1.65m. The reported incurred costs for the team are £1.38m. The reason for the difference is that the £1.38m has been adjusted to reflect core work and excludes work time sheeted to programmes.

#### **Activities driving change in resource in RY23/24**

#### **Activities driving change in resource in RY24/25 and RY25/26**

In RY24/25 and RY25/26, the team is variant with incurred costs of £1.78m and £2.13m respectively. As can be seen from the table below, the number and type of roles in these years are the same. The reason for the year-on-year increase is due to a change in the charge rates to account for inflation (a base increase of c.4%), and changes to the allocation of the resources to programmes.

**Table 5: Roles in Strategic Customer Engagement Team for RY24/25 and RY**

Grade	Type	2025	2026	Base unit cost
Senior Manager	Payroll	2	2	
Senior Manager	Payroll	1	1	

Grade	Type	2025	2026	Base unit cost
Manager	Payroll	4	4	
Manager	Payroll	10.7	10.7	
Director	Payroll	1	1	
Analyst	Payroll	1	1	
Total		19.7	19.7	

#### 1.4.4. Regulatory Support and Economic Incentives

The Regulatory Support and Economic Incentives sub-team was formed during the restructuring of the Strategy and Regulation team. It was created by moving members of Regulatory Governance and Design and Delivery teams into a dedicated team under a single Head, instead of two – delivering this activity more efficiently.

##### Activities driving change in resource in

The team has been restructured around DCC's contract management lifecycle with a Senior Regulation Lead assigned to each of the three stages. A Regulatory Advisor position has been vacant since January 2024 and has been made dormant. The Economic Incentives Manager leads on DCC's suite of incentive schemes.

- Head of Regulatory Support and Economic Incentives
- Economic Incentives Manager
- Senior Regulation Lead - Concept to Contract
- Senior Regulation Lead - Market to Retire
- Senior Regulation Lead – Contract to Market

All of the above posts have been filled by current DCC employees via team transfer or through development of staff resulting in promotion – there has been no increase in headcount.

##### Activities driving change in resource in RY24/25 and RY25/26

In RY24/25 and RY25/26, the same underlying forecast costs of £0.551m is forecast, with there being no change to the number or composition of the team. However, less of the team is allocated to programmes in forecast years due to uncertainty over demands two years ahead of time. This is entirely to be expected, with the consequence being more costs appearing in the "home" team. At our monthly Price Control meetings with Ofgem, we have presented information on our financial data improvements, including changes to how we now forecast expenditure on DCC programmes. We would be happy to share the underlying data with Ofgem to show how the costs are calculated.

#### 1.4.5.

Variance	GL		RY23/24	RY24/25	RY25/26
Recruitment cost	RC	£m	0.313	0.007	0.001

In RY23/24, DCC incurred a total of £0.4m on recruitment fees across the entire Corporate Management cost centre. None of the transactions was individually variant, with a total of 92 entries, averaging less than £5k. The majority of the costs are attributable to a handful of director level roles, with an average fee of £25k. As we have previously described in our submissions, the cost of recruitment activities is a function of the complexity and seniority of the role.

## Value for money

Our recruitment activities deliver value for money by focussing on getting the most appropriate selection and hiring processes for the role in question. Abortive recruitment arising from attempts to artificially cut costs will always be more expensive than deploying the most effective resources to recruit the role.

In its RY20/21 Price Control decision, Ofgem recognised that recruitment fees are typically a percentage of the candidate's base salary. It deemed that for Executive level roles, up to 30% and for senior non-executive level roles, up to 20% were acceptable ratios. While this is a binary set of rules for a non-binary process, there is only one case of a greater than 20% recruitment fee being applicable in the data. This was for a director role and summed to £36,750.

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

The following table provides a summary of the non-resource costs variances, which are broken down in the following sections.

**Table 6: Variance for Corporate Management internal costs by GL**

Variance	GL		RY23/24	RY24/25	RY25/26
Total Accommodation	AC	£m	-0.295	0.329	5.281
Total External services	ES	£m	6.450	2.559	1.705
Total Internal services	IS	£m	0.185	-0.116	0.103
Total Service management	SM	£m	-	-	-
Total Transition	TR	£m	-	-	-
Total IT Services	IT	£m	0.073	0.021	0.021
Total Office Sundry	OS	£m	-	-	-

### 1.5.2. Accommodation Costs

In RY23/24, only Brabazon rent was variant, and only in the forecast years. The sections below describe the reasons for these variances.

**Table 7: Material variances for Corporate Management non-resources internal costs – Accommodation**

Variance	GL		RY23/24	RY24/25	RY25/26
Brabazon Facilities	AC	£m	0.066	0.023	0.727
Brabazon Rates	AC	£m	0.052	0.148	0.340
Brabazon Rent	AC	£m	0.010	0.536	0.536
Brabazon Service Charge	AC	£m	-0.161	-0.003	0.272
Ibex Facilities	AC	£m	-0.010	-0.016	0.227
Ibex Rates	AC	£m	-0.028	0.033	0.360
Ibex Rent	AC	£m	0.000	-	0.632
Ibex Service Charge	AC	£m	-0.009	0.026	0.272
Ruddington Rent	AC	£m	0.076	-0.019	0.505
Test Lab Operator	AC	£m	-0.625	-0.590	1.197



## Brabazon Rent

In DCC's RY22/23 submission, Brabazon Rent was forecasted as zero for RY23/24 and RY24/25 with a small amount of incurred expenditure in RY22/23 (rental insurance). The reason for this is because the rent charge has previously been capitalised and appears elsewhere in DCC's cost base. To illustrate how this appears in DCC's incurred costs, please see the below extract from our SAP transactions. Excluding the landlord insurance recharge, the transactions net to zero.

**Table 8: Illustrative Sap Extract for**

ACC_L6	Text	Grand Total (£m)
AC660010	IFRS 16 BH rent charge	(0.140440)
AC660010	IFRS 16 BH rent charge (Apr24-Jun24)	(0.140440)
AC660010	IFRS 16 BH rent charge (Dec 2023 - 24/03/24)	(0.140440)
AC660010	IFRS 16 BH rent charge (Jan23 to Mar 23)	(0.140440)
AC660010	Rent: Quarterly in advance Mar4-Dec25	0.140440
AC660010	Rent Dec 2023 - 24/03/24	0.140440
AC660010	Rent June 2023 - Sept 2023	0.140440
AC660010	Rent Sept 2023 - Dec 2023	0.140440
AC660200	Landlord Insurance Recharges	0.010210
AC660010	IFRS 16 BH rent charge	-
<b>Total</b>		<b>0.010210</b>

This year, to provide more clarity on our accommodation costs, we are presenting our forecast on a "cash view" basis – i.e. the actual value of the rental agreement. This is forecast at £534k per annum. As there is no RY23/24 baseline for Brabazon Rent as the rent was capitalised, the full value of the rent agreement appears as a variance.

## RY25/26 variances

In the RY22/23 decision, Ofgem set all the baselines for the above accommodation items to zero for RY25/26. This means that all of the items are showing as variant for that year. The figures for RY25/26 are identical to the incurred costs in RY24/25 – there is no increase year-on-year.

### 1.5.3. Other internal costs and services – group recharges

In RY23/24, recruitment and group recharges costs were variant relative to Ofgem's baseline.

**Table 9: Material variances for other costs – group**

Variance	GL		RY23/24	RY24/25	RY25/26
Group recharges	IS	£m	0.159	-0.116	0.103

For Price Control purposes, Group Recharges are assigned to the Corporate Management cost centre. The activity covers a range of administrative costs including email archive and recovery costs, access to IT and other systems.

In RY23/24 the baseline for the activity was £218k. We incurred costs of £377k and thus are reporting a variance. The reason for the variance is due to a small accounting charge whereby we have included the costs of Workspace Agility. In prior years this cost line had its own table 2 category under the External Services GL code in Finance.

The costs of Workspace Agility sum to £150k in RY23/24, without which the Group Recharges entry would not be variant. Workspace Agility is a vital aspect of DCC's user experience, allowing colleagues to have full system access

from different devices and locations. Incurred costs for Workspace Agility were lower this year than in RY22/23 when we incurred £0.195m.

#### 1.5.4. External Services

In RY23/24, the majority of DCC's external service expenditure has been incurred on two major areas of government-mandated activity:

- DCC's Business Case Centre of Excellence
- Support to prepare the Business Handover Plan and readiness to deliver ex-ante price control

The table below sets out key variances for individual activities that vary from Ofgem's baseline by more than £150k. Section 1.8.1 onward describes the drivers for these activities and how DCC has achieved value for money in keeping with its various licence obligations.

**Table 10: Material variances for Corporate Management non-resources internal costs – External Services GL**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement Type
Customer Onboarding Support	ES	£m	0.215	-	-	
MEAP	ES	£m	0.304	0.238	-	
- Centre of	ES	£m	2.659	0.625	-	
- Licence	ES	£m	1.014	0.302	-	
- MEAP	ES	£m	0.301	0.244	-	
Project Sky	ES	£m	0.478	-	-	
PRINCE2	ES	£m	0.848	-	-	
Price Control improvement / support -	ES	£m	0.152	0.580	0.600	

##### 1.1.1.1. - Customer Onboarding

The DCC network is attracting an increasing number of potential new users (categorised as 'Other Users', as opposed to Energy Suppliers or DNOs). Prior to this procurement, DCC had no pipeline or associated customer journeys and processes to identify, manage, and on-board these new users, manage their in-life experience, or manage their exit from the service. This resulted in poor customer experience which is likely to deter potential new users from using DCC services.

This project sought to address these issues through improving the 'Other User' onboarding journey through the implementation of better processes and systems. Any improvements identified to the Other User onboarding journey would also be considered for Core User onboarding journeys.

The project was tasked with producing an initial business case setting out the available options to simplify, automate and digitise the DCC's on/off boarding journeys for Other Users. This would then be followed by an implementation plan to build the chosen solution.

DCC needs to strike an appropriate balance between established security vetting requirements with introducing slicker, quicker, more automated systems for new and prospective users.

#### Value for money

The requirements highlighted within the sourcing strategy were sourced via an RFP following a procurement process. Seven suppliers were invited to bid for the work. These suppliers are all current suppliers to DCC and sit within the consultancy framework or system engineering framework. Five suppliers submitted an RFP response, with three subsequently being shortlisted to present their proposal in greater detail. Presentations were followed by a question-and-answer session in which the scoring panel asked further probing and clarifying questions in relation to the supplier and their proposal. Scores were amended and a further moderation session was held.

At the conclusion of the process, Expleo were identified to be the strongest supplier with the highest cumulative score within the evaluation workbook. A further negotiation was held with Expleo which resulted in the supplier reducing their commercial submission by six percent whilst increasing the level of resource assigned to the contract.

Procurement – [REDACTED] - Customer Onboarding Support		
Number of Bids received	7	
Number of Bids shortlisted	3	
Strengths of Selected Bidder	<p>Within the RFP it became apparent that [REDACTED] understood the needs of DCC. Their specialty in E&amp;U particularly stood out. Further to this the contractor holds extensive experience working with Smart DCC and other utilities companies in addition to other organisations including challenger brands. The contractor Proposed an approach that was both clear and agile and gave confidence that the team could meet the requirements and deliverables highlighted by DCC. Finally, it was felt that the supplier strongly aligned with the values of the DCC.</p> <p>Within the evaluation workbook, [REDACTED] had the overall highest score highlighting that they have the capacity to approach the contract in a way that meets the requirements and deliverables of DCC whilst still offering excellent value for money.</p>	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

#### 1.1.1.2. [REDACTED] – MEAP

As referenced above, Ofgem is currently conducting a wide-ranging review of DCC's regulatory framework. This will involve significant changes to the way in which DCC is governed, how it manages its finances and how it is structured.

There is enormous strain being placed on the current executive leadership of the key delivery functions (Service Delivery, Technology, and Operations) who are required to manage the 'Business as Usual' workload (which includes the management of critical national infrastructure and the delivery of large government and industry sponsored programmes) whilst at the same time mature and transform their functions, work in a new cross-functional operating model, roll out a new delivery methodology (which in itself is a significant business transformation programme) and roll out lifecycle products.

To provide the leadership needed to meet the challenges DCC is facing, DCC sought to procure an executive level resource to bring the specific expertise required to lead this transformation whilst at the same time ensuring business-as-usual activity remains on track. Whilst the Executive Leadership of the impacted functions are specialists in their functional areas, they do not have the specific expertise (or capacity) to successfully lead transformational change of this magnitude in the timescales required. In addition, there is a challenge that the transformation needs to happen across multiple functions in a controlled and aligned way to ensure that the strategic direction from the CEO and supported by the Board is implemented fully and consistently across all areas. This requires a single executive level individual to lead this transformation on a day-to-day basis.

To successfully fulfil the assignment brief, the resource was required to:

- Prepare and present progress reports and updates to the DCC Board to ensure the vision and strategy is clearly understood and continues to be supported.
- Working closely with the DCC CEO, ensure any internal or external programmatic risks and issues are appropriately managed and overcome.
- Take accountability for ensuring DCC continues to operate with Licence and Competition Law and that the transformation activity doesn't adversely impact this requirement.
- Work closely with other DCC business units to ensure the transformation activity supports delivery of the 10-year strategy set by the Board and appropriately supports its growth ambitions.

- Ensure the transformation and new operating model supports the promotion of DCC and the reuse of DCC capabilities and assets for the benefit of the energy industry and end consumers.

DCC identified a suitable senior resource within the market with the required skills and expertise to provide these requirements, we invited three existing suppliers to submit proposals to provide resource to DCC to ensure we achieved Value for Money. The total contract duration is expected to be 12 months; however, this will be on an initial 3-month basis with the option to extend in 3 month increments up to a maximum 12-month term. Each 3-month extension was to be agreed by the Project Sponsor following on from successful delivery of the deliverables agreed for the initial 3 months.

The key deliverables for the initial 3 months are outlined below:

- Define and gain Board endorsement to the ex-ante/lifecycle business case and high-level plan, covering the following scope:
  - DCC end to end operations onto Service/Product families within 6 to 8 months
  - Lifecycle profit and loss management process starting April 2024
  - Creation of a lifecycle/product unit to focus on cost and end to end service by April 2024
  - Key building blocks such as Prince 2 and time sheeting to be deployed company wide and support ex ante/lifecycle.
  - Identify systems, process changes required to support ex-ante and high-level costs.
  - Establishment of Design, Build and Run functions into a single operational unit by Summer 2024 If it is agreed (as above) to proceed with the subsequent extension options, deliverables will be agreed under each contract amendment.

As Ofgem's policy proposals developed, DCC had to focus the consultant's time on leading the development of service line financial reporting and the necessary supporting processes, and the wider activities needed to support the move to an ex-ante Price Control programme. This included managing the [REDACTED] team's work on delivering the ex-ante Price Control.

### Value for money

DCC invited three companies to provide bids for the supply of the consultant. The bids were subject to a standard quality and cost evaluation, with Orthello being successful on cost grounds. The management fee applied by [REDACTED] was [REDACTED]% compared to [REDACTED]% for the second placed bidder and [REDACTED]% for the third bidder. Expenses were all quoted at the same [REDACTED]% rate.

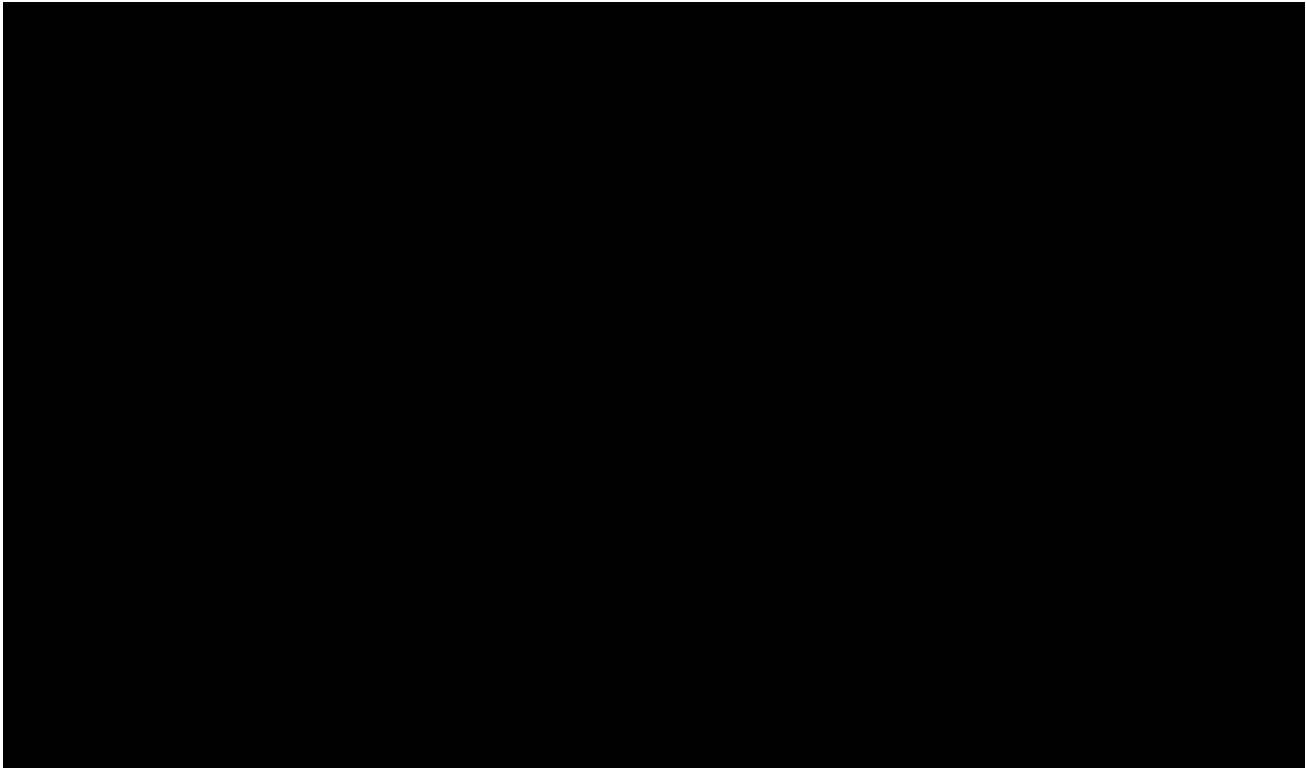
Procurement – [REDACTED] – MEAP		
Number of Bids received	3	
Number of Bids shortlisted	3	
Strengths of Selected Bidder	The successful bidder is a senior executive level individual with an exceptional track record of success in leading and transforming business functions in the technology and telecommunications sectors. Having worked extensively with some of the largest telecommunications companies including Vodafone (Cellular) and Arqiva (Long-Range Radio), they offer in depth knowledge of the technology and business operations of DCC's key Service Providers.	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

The total value of the contract was [REDACTED] for a total of [REDACTED] days over a twelve-month period (including expenses at [REDACTED]%.) This compares with [REDACTED] for the second placed bidder and [REDACTED] for the third placed bidder (including expenses at [REDACTED]%.)

### 1.1.1.3. [REDACTED] - Centre of

As described in last year's submission, DCC [REDACTED] procured temporary consultancy support to provide the capability needed to produce the large number of Green Book business case artifacts that the government now requires. The figure below depicts the current pipeline of business cases that DCC needs to deliver:

**Figure 3: Current pipeline of DCC's Business**



We also described last year that our plan was to adopt a part-consultancy, part-permanent staffing model, with a view to moving to purely permanent staffing once DCC had recruitment and knowledge transfer had completed.

Since April 2023, the COE has mobilised and operated very successfully, delivering all target outcomes:

- 26 Treasury Green Book business case stage submissions completed with confirmed or expected Department non-objection, enabling DCC to complete contract and programme implementation to business plan target.
- A transformation in the working-level relationships and ways-of-working with the Department, enabling reduced delivery effort and increased flexibility in approach.
- Significant reduction in business case approval cycle-time achieved against previous 4G Comms hub and Network baseline, achieving over 80% first-time Department 'non-objection' success rate.
- The COE capability and business case pipeline have also matured and developed significantly in the 12-months since April 2023:
  - DCC has recruited and established an internal COE capability of 4 FTE, with a further 2 candidates already in the recruitment pipeline. This has reduced our expenditure on consultancy resources.
  - While actual COE resource demand over the past 12-months has exceeded the initial estimate presented to DCC's Board in April 2023, spend with [REDACTED] in the period has been managed to budget, absorbing incremental tasks and unscheduled resource flexibility without additional charges to DCC.
  - DCC has established regular review and control over the business case pipeline, with input from both the contract management team and the new Enterprise PMO, combined with standard cycle-time and COE resource profile estimates, enabling forecasting and planning of COE resource profile and allocation.
  - From May 2024, additional non-LC16 contract approval justification and Board paper development workload will be transferred to the COE, consolidating a single 'Centre of Excellence' capability for all governance activity.

- More recently, our ability to forecast COE resource demand has also improved, based on development of cycle-time and resource profiling data, and stability of the underpinning business case pipeline.

DCC is currently in the process of transitioning to an internal-only COE operating model to support all business case and contract approval justification workload with a combined team of 8 FTE. We intend to cross-skill the combined team to enable a level of flexibility to absorb 'burst capacity' requirements over time and will consider further flexibility through managed services. In the RY22/23 submission we set out in detail how a hybrid model was the most economic and efficient approach as we transition to a fully internally resourced model.

In the short-term, the forecast COE demand profile shows a longer period of peak demand than originally expected, with peak resource profile required through to October 2024 rather than May 2024 as initially estimated (noting that the original estimates were based on very limited data).

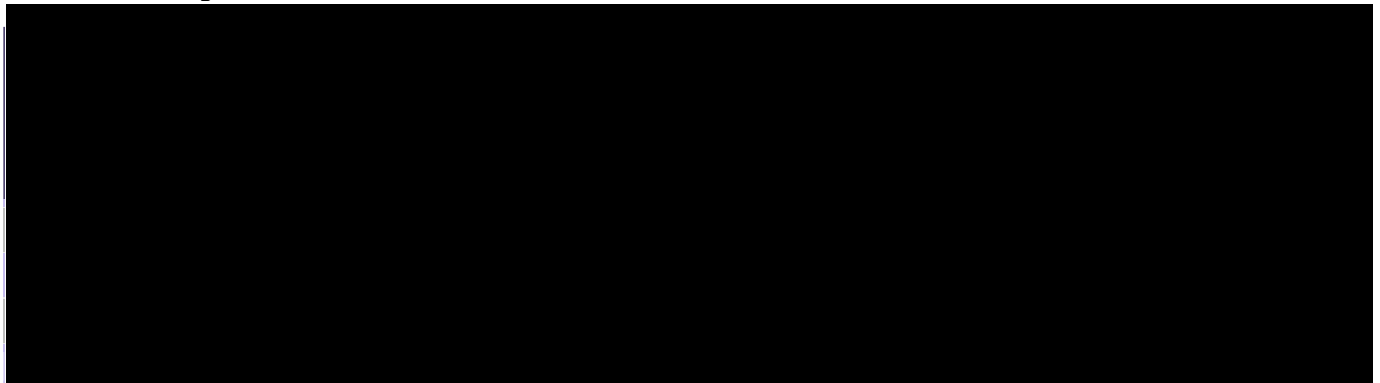
We have already accelerated the process of additional internal COE recruitment up to our long-term target of 8 FTE, looking at both permanent and short-term contractor resources, and expanding recruitment channels to include specialist agencies.

We have also explored the feasibility to reduce COE demand through deferring or rescheduling business case delivery, or through absorbing business case development workload into other business teams. However, given the strategic and business-critical nature of the business cases, and the lack of available capacity or specialist skillset in the relevant business functions, both options carry significant risk and have been rejected.

At the time of writing DCC is forecasting expenditure in RY24/25 of £0.63m while we transition to a permanent staff-based model. Where DCC is unable to fill vacancies in the permanent team according to our plan, we will need additional capacity from external support.

### Value for Money

We described the procurement process for the COE in last year's Price Control submission. To reiterate, DCC provided clear evidence to Ofgem that we had assessed a range of options in terms of their ability to meet our objectives and the costs of doing so as below:<sup>1</sup>



DCC is in the process of transitioning to the fully insourced model (Option 3) by end Q3 2024, supported by an ongoing call-off contract for burst-capacity. In the period up to Q3 2024 (or earlier, as required), the existing COE business case services with [REDACTED] will continue.

We are disappointed that Ofgem chose to disallow around 80% of the costs associated with the Business Case COE in the RY22/23 Price Control decision. We have feedback from customers and the Department that the COE is performing well and delivering high quality outputs. We are also on track to achieve our goal of transitioning to an insourced model and have already made several appointments to the team, and thus further disallowances of costs for the COE would be unjustified.

<sup>1</sup> Note: External costs are total for the period to end Q4 2025 and include COE costs already committed between Jan-Mar 2023. Internal cost estimate based on fully allocated FTE cost range between £100k (DCC standard) to £150k.

#### 1.1.1.4. [REDACTED] – Licence

DCC's licence is set to expire in September 2025. Ofgem has been consulting on the optimum model for the DCC for the next period, taking account of lessons learnt from the last decade, the evolution of the energy landscape over that period and stakeholders' future requirements for DCC.

Ofgem aims to complete this design work by the end of 2024. DCC has worked with Ofgem, providing the benefit of its experience and expertise in supporting these activities. Ofgem has asked DCC to provide more detailed input in four specific areas to support the design process. The areas are:

- **Transition to an ex-ante cost model:** Ofgem has taken the decision that DCC will move to an ex-ante price control model. The DCC has worked closely with Ofgem to provide detailed cost information and input into the design process for uncertainty mechanisms, new RIGS templates, customer engagement forums and appeals mechanisms.
- **Handover plan:** the DCC has a licence requirement to produce a Business Handover plan which sets out how it will transition the Authorised Business to a Successor Licensee. DCC developed and consulted on a first draft of the BHP and submitted it to Ofgem for external review. A key aim of this initial plan is to help Ofgem understand the need for and potential length of any licence extension.
- **Capita dependencies:** understanding DCC dependencies on its shareholder Capita and the various contractual relationships that govern the provision of services from Capita to DCC is a vital activity for informing the Business Handover Plan, but also in enabling Ofgem to prepare the RFP for the Successor Licence. The DCC has mapped all the interdependencies and developed a high-level strategy for transitioning corporate services away from Capita
- **Design of "DCC2":** we have extensively supported Ofgem in the detailed design of DCC2. This has included thinking on ownership, governance, scope, objectives, customer engagement, operating models and potential reuse. In order to support these activities effectively the DCC required certain skill sets and experience that were not readily available in house. It was also unclear how long these resources would be required for and how long any licence extension and therefore procurement and business handover process might take. Consequently, the decision was taken to seek external support, both immediately via a single source procurement, but also via a competitive RFP.

#### Value for money

DCC completed a competitive exercise to award suppliers a place on the DCC Consultancy framework in 2019. This competition meets the test of procuring Relevant Service Capability from an external provider. The rates on the framework are better than standard market rates and have been benchmarked against their peers.

The approved procurement process for these requirements was single source award to [REDACTED] Limited via Call off contract under the terms of the DCC Framework Call-Off Contract.

Senior DCC staff reviewed and assessed [REDACTED] proposed resourcing approach and plan to ensure it met the Quality and Capability requirements and provided excellent value for money.

The Commercial Evaluation was carried out by DCC's procurement team. [REDACTED] made a cost proposal based on the initial scope (15<sup>th</sup> June - 28<sup>th</sup> July 2023) which was subject to negotiation resulting in a discount of [REDACTED] % and a saving of [REDACTED] on the initial proposal.

Table 11: [REDACTED] Licence Renewal Scope Costs 15 June – 28 July

Charges (as presented in	[REDACTED]
Negotiated contract discount	
Negotiated discount value	
Total charge for scope	

The scope was then increased, and the end date of the work extended to 6<sup>th</sup> October 2023 to allow for the competitive RFP process to complete. This meant additional costs were incurred as below.



**Table 12: [REDACTED] Licence Renewal Scope Costs 31 July – 6 October**

			Estimated Days			
			Framework	Discounted	31st July - 6th	Framework
Discounted	Consultant	Framework Grade	Rate	Rate	October	Price
						Price
[REDACTED]						

For this additional scope and date extension, a discount of £ [REDACTED] ( [REDACTED] %) against DCC's Consultancy Framework rates was achieved. The total proposed contract for the period up to October 2023 was [REDACTED]

Having stabilised the resourcing position for the programme, we ran an RFP for the longer-term professional services support for these workstreams in August-September 2023 and were due to award the contract to [REDACTED] in October. However, Ofgem's minded-to price control position led to the decision to delay award given the risk of potential disallowance and to further engage with the regulator. Ofgem provided some degree of clarity on expected costs and whilst they do not disagree with the use of consultants, they do expect the DCC to resource and absorb some of the future work. The contract was therefore awarded to [REDACTED] in March 24 with the view that it would be scaled back over the course of the year and replaced with permanent resources.

Throughout the engagement, DCC has been transparent with Ofgem on the resources we were using to support its policy development for the licence renewal and the significant discounts that were negotiated. Many of the activities on which [REDACTED] were deployed have supported the development of Ofgem deliverables – such as the Business Handover Plan and Capita separation plan. We therefore expect that Ofgem will not consider any of the activities under this contract to be uneconomic or inefficient.

#### **1.1.1.5. [REDACTED] – MEAP**

In the period August 2023 to mid-March 2024, the ex-ante workstream was resourced via the [REDACTED] – MEAP consultancy support described above with the support of 2 [REDACTED] FTEs and a fixed term contractor. The cost of delivering this workstream to 15 March 2024 was £ [REDACTED]. Again, significant discounts of [REDACTED]m were negotiated to ensure value for money.

We ran an RFP for the longer-term professional services support for both the ex-ante and licence renewal workstreams in August-September 2023 and (as above) were due to award the contract to [REDACTED] in October, but the minded-to price control position led to the decision to delay award given the risk of potential disallowance. Ofgem have provided some degree of clarity on expected costs and whilst they do not disagree with the use of consultants, they do expect the DCC to resource and absorb some of the future work.

#### **Value for money**

DCC originally forecast that the move to ex ante programme would cost around £4.4m.<sup>1</sup> However, following feedback from stakeholders we have scaled back activities to a more minimal approach. To do this, we have made the following changes:

- Removing the implementation of Prince2 from the MEAP programme and justifying it separately based on the continued request by DESNZ to use Prince2 as our standard Programme and Project methodology.
- Sharing programme management resources across the ex-ante and successor licence workstreams of the licence renewal programme.
- Utilising internal resources in the areas of process documentation, finance and other functional expertise.
- Only utilising external resources (contractors and consultants) for ex-ante design, service lifecycle management, transformation, and overall programme management.

<sup>1</sup> The combined costs of delivering the transition to PRINCE2, lifecycle management and service families.



- We have also reduced our tooling costs from £1m to £500k.

This minimal approach to MEAP would reduce the overall costs of delivering the transition to ex-ante by around £1.3m as per the below table. The cost forecast does not extend beyond June 2024, as we were expecting Ofgem to clarify its position on the future economic regulatory regime in that month, Given further delays in Ofgem's June 24 consultation document, the forecast below is likely to need to change.

£m	Committed spend to 15 March 2024	19 March – June 2024	Total
MEAP original business case			
Successor Licence original business case			
<b>Original Business case total (not recommended)</b>			
MEAP minimal approach			
Successor Licence minimal approach			
<b>Minimal Approach total (recommended)</b>			

#### 1.1.1.6. [REDACTED] – PRINCE2

The DCC Service Delivery function is accountable for managing a portfolio of programmes and projects through a structured governance process, on time, within budget and to the required standards for successful in-life operations. The organisation is currently transitioning to a new operating framework whereby Service Delivery is fully accountable for all design build, test and transition activities for programmes and projects and provides delivery and business analysis services to the early life cycle activities (from concept to contract award).

DCC uses a bespoke waterfall delivery methodology, CDM (Change Delivery Method). This methodology lacks the governance processes and controls required to effectively manage the early part of the programme delivery lifecycle. More generally, CDM is not used by DCC's delivery partners (third party suppliers such as CGI) and customers and cannot be used as the basis of staff professional development or as a recruitment benchmark. DCC therefore intends to transition to the PRINCE2 Project Management methodology, and this will be implemented across all aspects of the delivery lifecycle, with the exception of business changes which are undertaken as functional BAU activities. The plan to move to PRINCE2 was informed by the conclusions of the Project Lighthouse report which made a number of recommendations for DCC's operating model.

Transitioning to PRINCE2 was supported by the Department and the SEC Panel as the preferred way of managing major programmes.

The required deliverables for the programme were as follows:

- PRINCE 2 Impact Assessment.
- PRINCE 2 capability baseline and capability gap assessment for the following roles: Delivery Director, Programme Director, Programme Manager, Project Manager, Project Coordinator, Programme Office Manager, Programme Office Senior Analyst, Programme Office Analyst.
- PRINCE 2 implementation approach and plan, with associated costs and training plan. The plan must include the manner in which inflight programmes and projects will transition to PRINCE 2 and the business change is rolled out across and communicated to DCC staff.

- Implementation of PRINCE2 in accordance with the approved implementation plan (iii above) including, but not restricted to establishment of governance framework, project/programme templates, role descriptions, reporting framework and communication plan.
- Training plan and artefacts to include PRINCE2 overview, PRINCE2 foundation, PRINCE2 Practitioner certification for relevant roles.
- All identified staff trained to PRINCE2 Foundation and/or Practitioner level. Training will be delivered in person at supplier premises, unless otherwise agreed.
- Recommendation for supporting system/tooling and processes for management of programme/project plans, management of risks and issues, reporting, resource forecasting and deployment. This recommendation may be based on changes to the existing Clarity tool and must include an implementation plan and costs.
- Implementation of system/processes or change to configuration of existing Clarity system and supporting processes, in accordance with approved recommendation (point above).

### Value for money

DCC adopted a full RFP for this procurement given the size of the procurement. In line with the published RFP documents the evaluation results, the bidder presentation, and a subsequent meeting to review the manner in which DCC queries had been addressed, [REDACTED] scored 42.5 out of an available 65, from both a quality/capability perspective, and they demonstrated a good understanding of the requirements. Furthermore, the delivery approach and experience of staff proposed to deliver the services had been modified to meet DCC requirements.

A discount of £[REDACTED] was negotiated with [REDACTED] from the original price proposed for the Services - Discovery, Implementation and Planning phases as shown below.

The charges proposed were the current agreed [REDACTED] Framework (DCCT0112) rate card for 2023 at a cost of [REDACTED] for - Discovery, Implementation and Planning phases. Through negotiation a further discount was achieved from the rate card for this engagement.

Procurement – [REDACTED] PRINCE2		
Number of Bids received	5	
Number of Bids shortlisted	2	
Strengths of Selected Bidder	[REDACTED] scored 42.5 out of an available 65, from both a quality/capability perspective, and they demonstrated a good understanding of the requirements. Furthermore, the delivery approach and experience of staff proposed to deliver the services had been modified to meet DCC requirements.	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

#### 1.1.1.7. Price Control improvement/support [REDACTED]

Following feedback from Ofgem, DCC has revisited how it delivers the Price Control submission to Ofgem. Two of our main aims for the RY23/24 submission were to start the project management phase earlier in the year and to allow more time for assurance activities. We focussed on these aims to ensure that we provide more detailed and comprehensive information to Ofgem than prior years and that the data is better quality – acting on feedback from Ofgem.

DCC initiated a full [REDACTED] procurement process at the end of 2023, with a view to onboarding new contractors early in 2024. Because of this, the variant costs that Ofgem will see from the above table is £0.152m associated with Price Control support for RY23/24 with [REDACTED] – i.e. DCC had a baseline for RY22/23 Price Control costs for RY23/24 but not for the RY23/24 Price Control.

Preparing the DCC Price Control submission, and the associated products, is a significant undertaking which requires information to be sourced from individuals and systems across the entirety of DCC's organisation. This information then has to be shaped into a coherent narrative which enables DCC to explain its incurred and forecast costs.

It is made more challenging by the fact that the risks may well only emerge as information is gathered and the evidence assembled. It is also heavily dependent on the time and contributions of DCC staff, many of whom are extremely busy with their day-to-day responsibilities. As a result, it is important that the many dependencies which will impact the development of the submissions are managed actively.

DCC has an in-house economic regulation team which is accountable for managing the Price Control processes throughout the year and is skilled in creating the content for the annual submission to Ofgem. However, this is a small team of policy experts rather than project and programme managers which are acutely needed in the period ahead of submission.

While the scope and nature of the company has significantly evolved over the years, and its size has significantly increased, the price control continues to be carried out every year, and extra resources need to be dedicated to complying with the very tight timescales imposed by Ofgem. Similarly, Ofgem's expectations increase every year, including expansion of the supplementary schedules to include all External Service transactions, and in RY23/24 and beyond additional reporting on Capita contracts. We are also now applying additional rigour to the data submission through an assurance report, which in RY23/24 will be far more comprehensive than previously. All of these activities increase the resource requirements needed to populate the submission.

Using a specialist external consultancy to support a price control process is standard industry practice to provide expertise and to support the peak in resource requirements. We note both Ofgem and Ofwat appoint major consultancy partners for the RIIO and PR processes respectively. We also understand that the vast majority of regulated utilities also follow a similar practice. For these utilities, the costs of this support will be included in their historic and forecast costs included in their business plan submissions, and so are 'baked into' the allowances set by regulators. In the absence of external support, we would need to hire permanent staff at a relatively high price point who would not be needed for at least 6 months of the year.

## **The procurement**

DCC launched a procurement for consultancy support from January 2024 until end December 2024. The work is split over four distinct phases, with the first three being core deliverables and the last phase an optional set of deliverables in the event DCC needs support.

### ***Phase 1: January to March 2024 – Narrative and Programme***

- The successful supplier will be required to work with DCC to identify and support drafting of narrative for key activities.
- Outputs for Phase 1:
  - Develop and agree with DCC a programme management plan and liaise with the business to ensure that the relevant DCC areas are 'bought in' and understand what is required by when.
  - Create the overall DCC narrative for the control which will feed into all documents, along with (as far as is possible) an Executive Summary and a short CEO Foreword.

### ***Phase 2: April to June 2024 – Price Control Document***

- The successful supplier was required to:
  - Lead on the programme management to ensure the effective delivery of all Price Control documents by 31/06/2024.
  - Lead on and draft chapters and elements of the Price Control report as directed.
  - Liaise with DCC teams as appropriate to gather information and inputs to report.
  - Quality Assure each section of the overall report to ensure consistent drafting tone, messaging, approach, and accuracy.
  - Support the business to produce a Quality Assurance report for Ofgem.

### ***Phase 3: July 2024 - Sign off and Quality***

- The successful supplier was required to:
  - Support the business to finalise the Quality Assurance report on the accuracy of the data for DCC and Ofgem.

- Quality assure the final draft of the report, especially around use of data and the summary section at the top of each chapter.
- Manage the overall sign off process within DCC.
- Ensure delivery of all DCC materials to Ofgem by end 31/07/2024.

#### **Phase 4: August 2024 to December 2024 – ongoing support (if**

- In the period 1 August 2024 to end December 2024, the successful supplier will:
  - Provide support in responding to Clarification Questions from Ofgem.
  - Support DCC during Ofgem's price control Cost Visit. This may include managing the process, preparing briefing documents for DCC, preparing slide packs to present to Ofgem, and giving evidence to Ofgem as required.
  - Support DCC at Ofgem's stakeholder event. This may include preparing briefing documents and slide packs and giving evidence to Ofgem as required.
  - Support DCC in any potential undertaking in accordance with DCC's licence conditions.
  - Assist DCC in responding to Ofgem's consultation on DCC's price control submission, including authoring chapters and producing analysis as required.
  - Provide ad hoc support to DCC during Ofgem's deliberation process.

#### **Value for**

DCC initiated a full [REDACTED] procurement, with thirteen suppliers invited to participate in the RFP process. Suppliers were selected because of their specific experience with price control processes. Five suppliers were selected from Lot 3.5 (Audit & Assurance – Regulatory Compliance, Advice & Review) of the Consultancy Framework ([REDACTED]). Having engaged the market, a further eight suppliers were invited due to their specific experience surrounding price control processes ([REDACTED]). Five of the thirteen suppliers submitted a proposal in response to the RFP.

Scoring was completed by the evaluation panel in insolation, followed by a moderation session. Of the five suppliers that submitted a proposal, three were put forward to the next stage of the RFP process ([REDACTED]). These suppliers were invited to a round of presentations covering:

- A walk through of their approach.
- An overview of the team being proposed by the supplier.
- How they expect DCC to support them in terms of resources and time commitment.
- How they will account for the unique circumstances that Smart DCC operates within.
- How they intend to work with Smart DCC Remote vs Face-to-Face.
- Their approach to engaging with and building relationships with Smart DCC internal stakeholders.

Following this, the three suppliers were asked to provide their best and final offer and a further moderation session was held in which scores were amended based on any further detail or understanding derived by DCC from the presentations.

Through updating the scoring, it became apparent that [REDACTED] not only offered the best solution in the form of their quality submission but were also most competitive from a price perspective. As a result, they were awarded the contract.

<b>Procurement – Price Control Improvement/Support [REDACTED]</b>	
<b>Number of Bids</b>	5
<b>Number of Bids</b>	3
<b>Strengths of Selected</b>	[REDACTED] scored highest out of all suppliers that participated within the tender process with a total score of 91%. [REDACTED] scored particularly strongly in areas including their approach to our requirements, their previous experience, and their proposed project team that they would look to integrate within DCC. [REDACTED] were the highest scoring bidder

Challenge by DCC	<p>not only from a quality perspective but also from a commercial perspective offering the lowest total fixed price to complete phases 1-3 of the process. This underlines that the contract offers excellent value for money for Smart DCC.</p> <p>With regards to the phase 4 requirement, [REDACTED] had the second lowest day rate and the lowest proposed day rate for operational members of their proposed team. It is anticipated that the value of phase 4 will be significantly lower than phases 1-3.</p> <p>[REDACTED] demonstrated a strong understanding of what we aimed to achieve within the contract and had a clear vision of the support they would need from DCC. They have proposed a strong team that have extensive experience working in price control and proposed a clear and logical approach to undertaking the contract which provided confidence to the evaluation panel.</p>	
	Initial Price	BAFO
	[REDACTED]	[REDACTED]

### 1.1.1.8. Project Sky

As set out in the RY22/23 submission, Project Sky is a forensic review to establish the chronologies and course of events related to three key aspects of the government's Smart Metering Implementation Programme:

- 2G/3G sunseting.
- CSP North capacity limitations.
- Reprourement of the Data Service Provider (DSP) contract.

In order to assist with the identification of key facts and associated chronologies DCC asked for support in the following areas:

- Prepare for and undertake a series of fact-finding interviews with DCC employees.
- Perform a review, using a specialist document review platform of the following data sources:
  - Emails
  - Presentations
  - minutes of meetings
  - technical reports
  - internal communications
  - other media

DCC requested proposals from [REDACTED] and [REDACTED] as part of a competitive RFP process. DCC requested that the submissions included the approach to be taken to support DCC in collecting and reviewing internal documents to build these chronologies.

Following the evaluation of proposals by two senior colleagues (including one ExCo member) in DCC, it was agreed that [REDACTED] proposed a far more tailored approach to DCC's requirements in comparison to the [REDACTED] proposal which was far more generic. [REDACTED] also had a greater understanding of DCC requirements overall.

[REDACTED] presentation of the results and their flexibility in how they would approach the work gave DCC more confidence in their capability to provide the services effectively. They also proposed a team with specific Smart Metering subject matter expertise.

The total cost of the procurement was calculated on an estimate of the volume of materials needed to be reviewed and their complexity. In RY22/23, the incurred costs of £[REDACTED] covered most of phase 1, 2 and 3 but not phase 4 which was completing the analysis, reporting and communication of the results. £[REDACTED] has been incurred in RY23/24 largely arising from additional processing of information in phases 1, 2 and 3 and completion of phase 4 – the costs of which could not be known until after phase 1 had concluded and we knew how much data [REDACTED] would need to collect and analyse. In addition, DCC made a change to the scope of the forensic audit which resulted in additional

costs of [REDACTED] At the time last year's ABP was approved we had forecast £[REDACTED] for this work would be incurred in RY23/24, but because of the uncertainty over how much data would be analysed, we assigned the expenditure as discretionary.



# Commercia

**Version: 1.0**

**Date: 31.07.2024**

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# 1. Commercial Cost

## Summary

### What is this and why is it important?

The Commercial function leads on the procurement and management of external services and suppliers. DCC now operates at scale, with a significant volume of new procurement and reprocurement contract management activity every year, requiring significant commercial expertise.

Our Commercial function ensures that DCC delivers a reliable and scalable service, strengthening the performance and ability of our network and therefore improving outcomes for our customers. The objective of the function is to ensure that DCC's operations are delivered in the most economic and efficient manner, in accordance with our licence conditions, and ensuring we hold our suppliers to account for their performance standards.

### RY23/24 activities and costs

Total costs were £10.9m, (against an Ofgem baseline of £8.1m). Costs were driven by the increased scale and scope of DCC's obligations, including over 50 additional Fundamental and Relevant Service Capability contracts, c.600 contract changes, over 200 sourcing activities, and an extension of the incumbent DSP contract. This step-change in activity has necessitated:

- A one-off investment to develop our new commercial pipeline, which has enabled a step-change in our ability to manage contracts and the procurement pipeline to deliver optimum value for money, while also providing key stakeholders (e.g. DESNZ) with greater visibility on forthcoming activity (including regular sharing of DCC Commercial Pipeline).
- Evolving the Commercial function's operating model to meet the expanding scope of business needs. This included restructuring to ensure we had the right capabilities in the business, and accessing a difficult recruitment market for professionals with the right skills in a cost effective way.

In addition, during RY23/24, our commercial improvement programme has delivered enhanced digital capabilities, a new Benefits and Savings programme with £15m in benefits recorded for RY23/24, and a Material Controls process to promote best practice with regards to the management of contracts and supplier performance.

### Future activities and costs

The Commercial function is currently operating below capacity following aforementioned changes to our commercial operating model. As we continue to seek highly skilled commercial professionals to fill the vacancies we are carrying, the current year (RY24/25) forecast cost is lower than RY23/24.

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the cost centre purpose and our resource and non-resource costs.

#### Cost Centre Variance by GL

The table below provides a breakdown of incurred and forecast costs in price control format i.e., mapping costs directly against the price control GLs.

Table 1: Cost centre variance by

Baseline			RY23/24	RY24/25	RY25/26
<b>Total Commercial</b>		<b>£m</b>	<b>8.164</b>	<b>2.697</b>	<b>-0.000</b>
Payroll costs	PR	£m	7.003	2.070	-0.000
Non-payroll costs	NP	£m	0.165	0.177	-
Recruitment	RC	£m	0.147	-	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.549	0.150	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.300	0.300	-
Office Sundry	OS	£m	-	-	-
<b>Incurred</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Total Commercial</b>		<b>£m</b>	<b>10.898</b>	<b>9.341</b>	<b>9.688</b>
Payroll costs	PR	£m	6.791	6.739	7.792
Non-payroll costs	NP	£m	0.161	0.092	0.093
Recruitment	RC	£m	0.658	0.003	0.000
Accommodation	AC	£m	-	-	-
External services	ES	£m	2.688	2.024	1.703
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.600	0.483	0.100
Office Sundry	OS	£m	-	-	-
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Total Commercial</b>		<b>£m</b>	<b>2.734</b>	<b>6.645</b>	<b>9.688</b>
Payroll costs	PR	£m	-0.212	4.670	7.792
Non-payroll costs	NP	£m	-0.004	-0.085	0.093
Recruitment	RC	£m	0.511	0.003	0.000
Accommodation	AC	£m	-	-	-
External services	ES	£m	2.139	1.874	1.703
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.300	0.183	0.100
Office Sundry	OS	£m	-	-	-

## Cost centre variance by Sub-Team

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

**Table 2: Cost centre variance by sub-**

Baseline			RY23/24	RY24/25	RY25/26
<b>Commercial Payroll Costs</b>	<b>£m</b>		<b>7.003</b>	<b>2.070</b>	<b>-</b>
Commercial Operations	£m		2.201	-	-
Procurement	£m		1.479	1.617	-
Vendor Management	£m		3.323	0.453	-
<b>Incurred</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Commercial Payroll Costs</b>	<b>£m</b>		<b>6.791</b>	<b>6.739</b>	<b>7.792</b>
Commercial Operations	£m		1.118	1.337	1.475
Procurement	£m		2.297	1.731	1.854
Vendor Management	£m		3.376	3.671	4.464
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Commercial Payroll Costs</b>	<b>£m</b>		<b>-0.212</b>	<b>4.669</b>	<b>7.792</b>
Commercial Operations	£m		-1.083	1.337	1.475
Procurement	£m		0.818	0.114	1.854
Vendor Management	£m		0.053	3.218	4.464

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and Structure

Our Commercial team lead on procurement and management of external services and suppliers, seeking to maximise value for money and ensure optimal outcomes for both DCC and customers. We manage the relationships with our external partners from concept through to end of life and provide the levers which enable DCC to deliver a reliable and repeatable service, at scale.

### 1.2.1. Scope

- Execute all procurement and contract renewal activity valued over £100k.
- Provide support to the business on procuring goods and services, supporting the business in the management of contracts and suppliers where the value is under £100k
- Oversee the commercial activity for Major Projects and Programmes
- Manage the end-to-end contract lifecycle of DCC's strategic and high value contracts in order to maximise financial and operational performance whilst minimising risk
- Lead on the proactive management of supplier relationships to secure
- Drive strategic alignment and value creation with our critical suppliers while minimising third party risk
- Manage SEC modifications and in-life contract change, ensuring optimum value for money

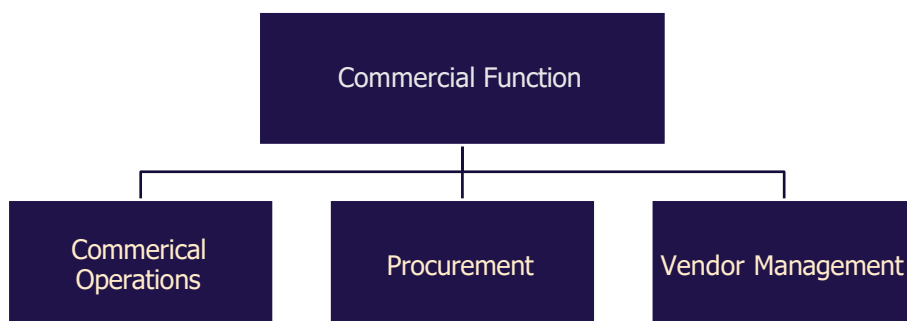
- Provide Commercial and Procurement Support for new workstreams such as Value-Added Services and Product Development
- Oversee the delivery of the DCC's Responsible Business Framework which focuses on delivering positive impact through responsible, inclusive and sustainable practices

### Key events and objectives driving activity and cost

- Executed over 200 >£100k sourcing activities
- Led negotiations on all the Network Evolution sub-programmes
- Fully managed [REDACTED] large complex contracts providing Fundamental and Relevant Service Capability and executed c.600 contract changes
- Introduced our Material Controls process to promote best practice with regards to the management of contracts, suppliers and performance
- Embedded a new Third Party Risk Management (TPRM) process which allows DCC to fully understand their supply chain risk and proactively mitigate issues
- Achieved carbon neutrality for business travel in Scope 1, 2, and 3 for the fourth consecutive year; developed reduction strategies and a data dashboard for monthly carbon footprint calculations
- Re-negotiated the existing DSP contract with the incumbent supplier to secure better terms, and concluded a successful ITT procurement phase for the DSP Data System which enabled a further down selection to the next procurement phase
- Concluded a successful Selection Questionnaire procurement phase for the DSP System Integrator which enabled an initial down selection for the ITT phase
- [REDACTED] procured Azure hosting service for the Device Manager component of the 4G CH&N solution, and [REDACTED] procured a logistics provider who will receive the 4G communication hubs from the manufacturer, store the devices securely, and deliver them to customers
- Closed out our transformation programme, including implementing a new organisational structure which resulted in additional capability within some teams, or the move of teams from other functions to ours, to better meet current and future business needs
- Enhanced digital capabilities to better support the execution of commercial strategies, improve end-to-end operational efficiency and enable proactive identification of risks and opportunities
- We have additionally made a number of changes to our internal structure to deliver DCC's scope of work in the best way possible, which has driven some cost in our function, but lowered costs in others.

## 1.2.2. Cost Centre

Figure 1 – Commercial Cost centre organisational



The Commercial function commenced a restructure in April 2023, driven by the need to ensure alignment at a senior level, provide better commercial flexibility, greater focus on cost savings and better engagement with our key suppliers. This brought together commercial business partners with procurement staff, expanded the Commercial Operations and Planning team and created a new Strategic Supplier Management team.

Figure 2: Commercial Cost centre organisational structure for FY

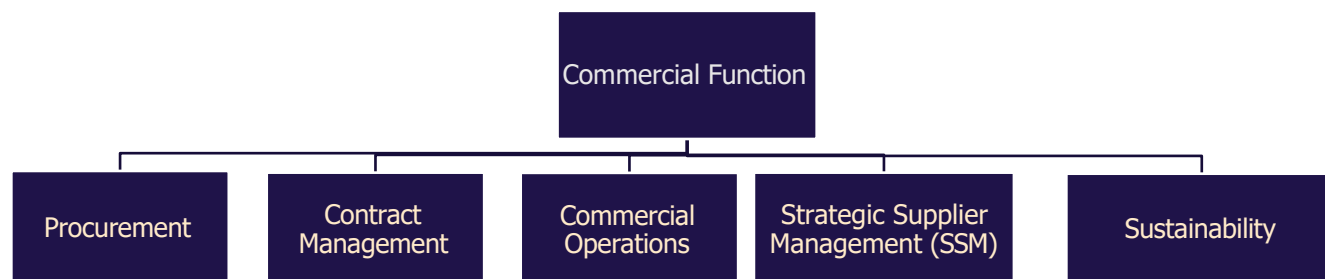


Table 3 provides the overview of the structural changes to the cost centre during RY23/24 and a description of the teams within the structure.

Table 3: Description Per Sub-Team

Sub-team structure reported in RY22/23	Sub-team RY23/24	Description
Commercial Operations	Commercial Operations, consisting of three sub-teams	<p><b>Commercial Operations and Planning</b></p> <p>Accountable for:</p> <ul style="list-style-type: none"> <li>Functional business planning, including resource and budget management, to ensure key commercial outcomes are achieved</li> <li>Ensuring a proactive, 'in-control' approach to scheduling commercial support for the wider DCC, interlocking plans and resource requirements</li> <li>Overseeing and coordinating all commercial audit, compliance and assurance activity, ensuring the timely resolution of actions and sharing of lessons learned</li> <li>Reporting and providing data and insight for Commercial Management and DCC Executive Committee to inform key decision making</li> <li>Identification, mitigation, tracking and reporting of functional risk, in line with DCC's enterprise approach</li> <li>Design and delivery of the long-term Commercial change agenda, including cross-functional projects and improvement initiatives</li> <li>Management and governance of commercial processes, systems and tools</li> <li>The ongoing management and reporting of Commercial benefits (efficiency, avoidance and non-financial)</li> </ul> <p><b>Sustainability</b></p> <p>Accountable for:</p> <ul style="list-style-type: none"> <li>Managing the development and implementation of the Responsible Business Framework focusing on holding DCC and its suppliers to a high-level of environmental, social and governance outcomes</li> <li>Implementing new policies and processes to raise DCC's and supplier ambition and drive increased social and environmental value</li> <li>Establish ESG reporting baselines, set future targets and monitor performance</li> <li>Identify and address ESG risks and opportunities</li> </ul>

Sub-team structure reported in	Sub-team RY23/24	Description
		<b>Leadership &amp; Major Programmes:</b> Accountable for: <ul style="list-style-type: none"> <li>Providing extensive support and expertise in a large number of high-value procurements for our major programmes.</li> <li>Developing and managing the execution of commercial strategies on major programmes</li> <li>Lead negotiations on a wide range of major procurement activities including leading negotiations on all the Network Evolution sub-programmes.</li> </ul>
Procurement	Procurement	<b>Procurement</b> Accountable for: <ul style="list-style-type: none"> <li>Negotiate major contracts pertaining to the delivery of key DCC Services in line with the approved Procurement Policies, Strategy and Procedures.</li> <li>Challenge and drive cost savings that represent value for money and ensure customers receive an appropriate level of information to justify expenditure .</li> <li>Building and maintaining Programme relationships with DCC major programmes on behalf of Commercial, representing all commercial aspects where required and the negotiation of significant contracts into the DCC eco-system.</li> <li>Manage the effective hand-over of such contracts to the business after a "bedding in" period of up to 12 months, typically 6 months after the date of contract signature.</li> <li>Provide commercial support to and deliver Re-Use programmes.</li> <li>Procure and re-procure goods and services valued over £100k on behalf of the DCC in line with the approved Procurement Policies, Strategy and Procedures.</li> <li>Procure and reprocure goods and services in major programmes (typical values £1m - £500m).</li> <li>Provide support and assurance on DCCs procurement of goods and services and on contract and supplier management on activity valued over £10k and under £100k.</li> <li>Adoption of the DCC Procurement Policy and Procedures throughout the organisation.</li> <li>Develop and create framework to manage tenders, ensuring they are fair, transparent and compliant.</li> <li>Procure, negotiate, challenge and drive cost savings that represent value for money and ensure customers receive an appropriate level of information to justify expenditure.</li> <li>Ensure compliance with the relevant regulatory and legal framework and support DCC Legal team to ensure effective contract terms and conditions are developed and implemented.</li> </ul>
Vendor Management	Strategic Supplier Management (SSM)	<b>Strategic Supplier Management</b> Accountable for: <ul style="list-style-type: none"> <li>Operating the contact &amp; engagement framework in which suppliers and DCC can dock into, driving effective decision making and escalation whilst ensuring accountability sits in the right area</li> <li>Managing Strategic Supplier Relationships, focusing on delivering value over and above the contracted terms through building robust partnerships,</li> </ul>

Sub-team structure reported in	Sub-team RY23/24	Description
RY23/24	Contract Management	<p>driving collaboration and innovation, and mitigating risk</p> <ul style="list-style-type: none"> <li>Leading on Third Party Risk Management for Smart DCC</li> <li>Creating individual supplier strategies aligned to the DCC strategy</li> <li>Creating detailed supplier profiling and intelligence to support DCCs ability to make effective decisions on its supply chain</li> <li>Communicating DCC strategy and forward plans to align with supplier strategies, promote relationship / networking with strategic suppliers</li> </ul> <p><b>Contract Management</b></p> <p>Accountable for:</p> <ul style="list-style-type: none"> <li>End-to-end management of strategic contracts and associated change</li> <li>Challenging and driving cost savings that represent value for money and ensure customers receive an appropriate level of information to justify expenditure</li> <li>Maintaining value and risk focus through effective contract, commercial and supplier relationship management and act as the first point of contact for issues</li> <li>Liaising with the business to ensure appropriate contract change management processes are undertaken and supports a favourable commercial position</li> <li>The effective management of contractual mechanisms and commercial levers for DCC Strategic suppliers, liaison with the wider business to provide contract interpretation, guidance on contract related matters and ensuring contract change is managed</li> </ul>

### 1.3. Cost centre variances

#### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format i.e. mapping costs directly against the price control GLs.

**Table 4: Cost centre variance by**

	Total Commercial			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Commercial</b>		<b>£m</b>	<b>8.164</b>	<b>2.697</b>	<b>-0.000</b>
<b>Total Incurred</b>	<b>Total Commercial</b>		<b>£m</b>	<b>10.898</b>	<b>9.341</b>	<b>9.688</b>
<b>Total Variance</b>	<b>Total Commercial</b>		<b>£m</b>	<b>2.734</b>	<b>6.645</b>	<b>9.688</b>
	Payroll costs	PR	£m	-0.212	4.670	7.792
	Non-payroll costs	NP	£m	-0.004	-0.085	0.093
	Recruitment	RC	£m	0.511	0.003	0.000
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	2.139	1.874	1.703
	Internal services	IS	£m	-	-	-
	Service management	SM	£m	-	-	-

	Transition	TR	£m	-	-	-
	IT Services	IT	£m	0.300	0.183	0.100
	Office Sundry	OS	£m	-	-	-

## Payroll Costs

- RY23/24

Overall, our payroll costs were broadly in line with expectations in RY23/24. We spent more than originally expected in Procurement due to the large increase in demand for business-critical procurement services - expanding our team was necessary to maintain and improve our service quality and obtain the right commercial outcomes. We underspent in Commercial Operations as a consequence of longer than anticipated vacancies. At a high-level these two impacts balanced out financially.

The overall payroll cost for RY23/24 was £[REDACTED]m with an overspend in Procurement (due to recruitment delays and contractor utilisation, explained below) offset by underspend caused by vacancies across Commercial Operations and Vendor Management.

- RY24/25 and RY25/26:

Payroll costs are forecast to remain flat through RY24/25 and increase in RY25/26. This is aligned with our strategy to continue with the recruitment of permanent staff across the commercial function in order to fill our new organisation structure and reduce reliance on long-term contractors and consultants. This has been a challenge in RY23/24 due to a skills shortage in the recruitment market, as described in further detail below, but we are optimistic these roles can be filled over the course of RY24/25 and RY25/26.

This increase in payroll costs is offset by a reduction in spend on recruitment, external services, and benefits realisation from the transformation activity, resulting in an overall lower forecast cost for the commercial function in future years.

The significant payroll cost variance for RY24/25 appears material due to Ofgem's disallowance of cost in the RY22/23 Price Control submission.

**Table 5: Cost centre incurred by**

Variance			RY23/24	RY24/25	RY25/26
Commercial Payroll Costs		£m	-0.212	4.669	7.792
Commercial Operations		£m	-1.083	1.337	1.475
Procurement		£m	0.818	0.114	1.854
Vendor Management		£m	0.053	3.218	4.464

## Commercial Transformation

Our commercial transformation has driven some costs since the workstream began in 2022. The work has covered all parts of the commercial function and therefore does not fit neatly into sub-team description as per the next section. We therefore provide here a view of activities we have undertaken and the benefits we expect to see from this investment into ensuring DCC is fit for future.

Our commercial transformation workstream began in 2022, following an independent review of the commercial operating model. The review identified improvement opportunities across several dimensions and concluded that broad change was necessary to support the next phase of growth in an efficient manner, in direct response to the scale at which DCC is now operating at.

Analysis within the review identified that DCC was not unique in the challenges facing the Commercial function, with a survey of 500+ Global C-Suite highlighting team capability and capacity as key issues that companies typically



needed to address and adapt in evolving businesses. To that end, we deployed some key strategies to address these challenges, seeking to achieve functional excellence with the right capability (skills, expertise, attitude) and capacity (agile, flexible), with the right data and systems to drive long-term value. The transformation programme was firmly in its implementation phase throughout RY23/24, driving the costs in this submission. This transformation and its implementation were crucial and necessary steps to adapt our commercial function to the organisation DCC has become, just as any major competitive firm would undertake a similar transformation for the scale of change we have seen.

The review highlighted the need for DCC to improve its agility, responsiveness and efficiency in order to adapt to the evolving context. RY23/24 saw a significant increase in commercial activity required by the business, with procurement activity up c. 50% and the number of fully managed contracts rising from [REDACTED]. This heightened level of activity also necessitated more extensive stakeholder management, both internally and externally, to ensure smooth execution of procurement processes and effective management of contractual obligations. The costs incurred from this were therefore essential in ensuring the right outcomes were delivered by our suppliers and contracts.

These factors collectively reinforced the necessity for a comprehensive transformation programme which focused on streamlining processes, the introduction of tooling and digitalisation, enhanced ways of working, and a function structured to better handle the growing demands.

To that end, the focus of the Transformation activity throughout RY23/24 was across the areas below:

### **Organisation and People**

We designed and implemented a new organisational structure for the function, which is better able to meet current and future business needs. The restructuring led to the creation of a Category Management team and Strategic Supplier Management teams, and then the expansion of a central Commercial Operations and Planning Team.

45 existing roles were reviewed as part of the consultation exercise that ensued, with 34 staff offered roles in the new organisation. A significant recruitment campaign ensued to identify high-quality, experienced commercial professionals to fill our new organisation.

### **Commercial**

Over the past year, we have developed a more advanced Commercial Pipeline approach and toolkit, which has already delivered a substantial improvement to the management of contract expiration and procurement activity. The pipeline is the single source of truth for commercial initiatives and contains critical information related to new procurements, re-procurements and contract extensions and amendments. The pipeline is a forward view of commercial and contract activity which facilitates the timely exploration of commercial options, provides visibility of decision-making accountability and enables proactive planning and resource management to deliver planned activity in a timely manner, including business case and board paper development.

The Commercial Pipeline contains over 200 live initiatives, with a total value of £ [REDACTED] bn and is governed by the CO&P team. A subset of the pipeline is also shared with The Department of Energy Security and Net Zero (DESNZ) on a quarterly basis to provide visibility of upcoming activity and strengthen joined-up decision making.

### **Way of Working and Processes**

In order for DCC to operate in the most efficient manner at scale, we recognised that our processes and ways of working needed to be optimised to enable us to better adapt to changing business and market demands.

We mapped, reviewed and streamlined 54 core commercial processes and documented the accompanying RACIs. These new processes incorporated industry best practice and considered the interfaces between commercial and supporting functions in order to avoid unnecessary duplication.

The revised processes and accompanying artefacts have streamlined accompanying governance, helped to establish clear end-to-end process ownership and enhanced overall operational efficiency.

### **Tools and**

The Target Operating Model assessment performed in mid-2022 identified that the current processes across DCC's source to pay journey, and the associated tools and systems, as well as overall user experience, would need to be further developed to adapt to our scaling operation and widening scope of work.

Through the implementation of the first phase of iValua, which went live in February 2024, DCC has made a considerable step forward, with a reduction in manual steps, simplification of sourcing processes and better-defined roles and responsibilities. This is just the first step in our digital maturity journey and the subsequent phases of iValua implementation will deliver a fully integrated source to requisition ecosystem, which drives improvements and compliance to the newly defined processes. Further information on iValua can be found in the External Services section.

## 1.4. Drivers for Variance – Resource

### Activities driving change in resource in RY23/24

Overall, the only material variance we incurred within the Commercial function over the last year was within the procurement team. This is a direct consequence of increased demand for business-critical procurement services across the business, resulting in the need to leverage contractor resource in the short-term to augment the team whilst recruitment was ongoing.

Beyond this, we had negative variances in both the Commercial Operations and Vendor Management sub-teams. This was also due to difficulties in recruiting high-calibre professionals and so these teams were unresourced for much of the RY.

### Activities driving change in resource in RY24/25

- Forecast costs in outer years assumes a fully resourced function, with all vacancies filled. Recruitment is ongoing.
- Procurement and Commercial Ops costs reduced next year, despite increased volume of activity, due to realisation of transformation benefits and formation of category strategies to reduce sourcing activities.
- The Sustainability team have moved into Commercial from Finance.

### 1.4.1. Commercial Operations

For the purpose of this year's price control submission, we are reporting the Commercial Operations sub-team as one team, and therefore one cost centre – with one corresponding baseline, incurred and therefore variance line. Following our restructure, the people and cost reported in this submission under the commercial operations team is three separate sub-teams:

- Commercial Operations and Planning
- Sustainability
- Leadership and Major Programmes

For transparency and therefore ease on next year's price control submission, we are reporting each of these teams' key activities and change in resource separately below but classifying them as one cost line under 'Commercial Operations' in the tables demonstrated. Next year, we will report these as separate sub-teams with respective baselines and incurred/forecasted cost.

At a sub-team level, we are forecasting a slight year on year increase in the Commercial Operations sub-team costs across RY24/25 and RY25/26. This is due to the ongoing recruitment drive across the sub-team and assumes that all roles within the new organisation structure are filled (the specific roles are called out below). Additionally, the movement of the Sustainability team (2 FTE) is driving future year resourcing costs up.

We have a £1.337 million material variance across the Commercial Operations sub-team forecast for RY24/25. This is primarily due to the fact that our forecast cost for this year, as reported in our RY22/23 submission to Ofgem, were disallowed, meaning we have a £0 baseline and all forecast costs for this year are variant.

### 1.4.1.1. Commercial Operations & Planning

The Commercial Operations and Planning team plays a crucial role in driving value for the Commercial function; promoting Commercial Excellence by leading the function's change agenda and promoting effective ways of working whilst minimising risk and ensuring regulatory compliance.

The team are responsible for the coordination and management of business-critical activity on behalf of the Commercial function and play a pivotal role in driving cost efficiency, planning commercial workload, budgeting and forecasting, and ensuring all commercial processes and systems are meticulously governed.

Additionally, the team is responsible for coordinating audit preparedness, maintaining compliance with regulatory policies, and promoting broader functional improvement, enhancing the function's reliability and reputation.

With a commitment to driving Commercial Excellence, the team is also responsible for commercial reporting, facilitating effective communications and delivering cross-functional improvement projects and initiatives including the DCC wide Benefits and Savings initiatives.

Despite having not incurred a material variance in RY23/24 costs, we are proud to share that over the past year, alongside delivering business critical and regulatory activity, the team has enabled:

- The implementation of iValua, a new source to requisition tool, driving the digitalisation and automation of processes
- The development of the new Benefits and Savings programme
- The development and management of the new Commercial Pipeline, driving business accountability and enabling the development of timely commercial strategies
- Transformation of the Commercial Budget and Quarterly lock processes. Introducing new improved ways of working and streamlined processes
- The creation of a Commercial Resource Demand Plan to enable data driven decisions and better Resource Management.

#### Activities driving change in resource in RY24/25 and forecast years

Following the implementation of the new organisational design, there is no expected increase in the Commercial Operations and Planning Team. Roles within the team will be reviewed in outer years as we continue our journey of automation and delivering operation efficiency.

Alongside the continued delivery of business-critical activities, the CO&P team will:

- Deliver enhanced iValua functionality and capability in order to enable further automation and digitisation of commercial processes.
- Leverage our new suit of tools and systems to provide greater insight and improve data-driven decision making.
- Evolve our holistic risk management framework to better incorporate Third Party Risk Management and ensure a joined-up approach at Enterprise Risk level.
- Enhance our commercial training offering, establishing a commercial academy and developing new training materials on critical policies, processes and ways of working.
- Establish a non-conformance management approach to internal audit and assurance activity, seeking to drive greater compliance with core procedures and enable root cause investigation and appropriate corrective action.

### 1.4.1.1. Sustainability

The Sustainability team was established in August 2023. In November 2023, it moved internally from the Finance team to the Commercial team. DCC's supply chain contributes approximately 99% of DCC's full Scope 1-3 carbon footprint. As well as environmental impact, DCC's supply chain also has wide social impact. By sitting in the wider Commercial team, the Sustainability team will achieve the greatest impact on absolute carbon emission reductions and delivering social value.

#### Activities driving change in resource in RY23/24

Two roles moved into Commercial part way through the regulatory period:

- Head of Sustainability – responsible for strategic development and implementation of the Responsible Business Framework. Defining new strategies and policies for the integration of ESG into DCC's processes e.g. procurement.
- CSR and Sustainability Manager – responsible for tracking ESG progress, ESG evaluation and sustainability learning initiatives.

Key events delivered by the team include:

- Carbon emissions reduction
  - Exception case successfully made to achieve Scope 1, 2, and 3 business travel, carbon neutrality for the 22/23 financial year – the fourth year running.
  - Carbon footprint data analysed and strategies for reduction developed.
- Supplier Engagement
  - 12 of our top suppliers, including all the top 6 by spend have signed up to our Supplier Charter.
  - Supplier Sustainability Forums held to engage suppliers on ESG topics.
  - Weighted ESG questions integrated into the procurement process for 4 pilot contracts totalling over £[REDACTED]million in value (including DSP).

### **Activities driving change in resource in RY24/25 and forecast years**

The net increase of 2 FTE into the Commercial function will increase resource costs for the function in outer years, however this will be offset by the equivalent reduction to Finance resource costs, following the internal transfer.

Key deliverables for 24/25:

- ESG Aligned Procurement – Aiming to include ESG related criteria during both the RFP process and Annual Supplier Surveys. We have prototyped the RFP project late last year and have already gained validated learning that we can apply to the RFP project. Our next steps are to automate the process via our new eProcurement tool iValua.
- Climate related financial disclosures - This is a new mandatory report that DCC will have to issue annually. The report scores the financial impact to DCC under different physical and transitional climate scenarios.
- Supplier and Employee Engagement - Examine how we can best collaborate with our suppliers to reduce overall carbon emissions or improve product circularity. Employee: this is meant to increase sustainability awareness across DCC and drive organisational knowledge and initiatives.
- GHG Inventory and Reduction – Aiming to have a full (S1, 2, and 3) emissions inventory aligned with the GHG protocol. This will give us clear data on where our emissions lay so we can make informed decisions on how to achieve Net 0 in the future.

#### **1.4.1.1. Leadership and Major**

The Leadership & Major Programmes sub-team consists of the Chief Commercial Office and our two Commercial Programme Directors.

The Chief Commercial Officer assumes overall responsibility for the Commercial function and plays a critical role in shaping the company's commercial direction, fostering strong customer relationships, managing contracts and financial performance, and ensuring compliance with industry regulations.

The role of the Commercial Programme Directors is to develop and lead on the execution of commercial strategies for DCC's major programmes. The directors provide extensive support and expertise across a large number of high-value procurements and lead on major negotiations.

No material variance was incurred by this sub-team within the regulatory year. Key activities delivered by the Commercial Programme Directors across the regulatory period include:

- DSP Data System
  - Re-planned delivery against a more aggressive procurement timeline and mobilised a multi-functional procurement team
  - Conducted a comprehensive market warming exercise with 20+ potential vendors which in turn led to an extremely high level of bidder submissions to the selection Questionnaire procurement phase
  - Launched, moderated and concluded a successful Selection Questionnaire procurement phase which enabled an initial down selection for the ITT phase

- Launched, evaluated/moderated, and concluded a successful ITT procurement phase which enabled a further down selection to the next procurement phase (Stage 2 Submissions) from bidders
- Collated a detailed set of requirements for the new DSP service
- DSP SI
  - Defined a detailed scope for the DSP SI service
  - Created a procurement plan and mobilised a multi-functional procurement team
  - Conducted a comprehensive market warming exercise with 20+ potential vendors which in turn led to an extremely high level of bidder submissions to the selection Questionnaire procurement phase
  - Launched, evaluated/moderated, and concluded a successful Selection Questionnaire procurement phase which enabled an initial down selection for the ITT phase
  - Prepared for commencement of the ITT phase in April 2024 subject to OBC non-objection from DESNZ
- DSP Contract Extension
  - Submitted an SOC and an FBC to DESNZ, successfully obtained an FBC non-objection
  - Re-negotiated existing contract with incumbent supplier at better terms
  - Signed [REDACTED] year contract extension with incumbent supplier in March 2024
- 4G CH&N
  - [REDACTED] procured Azure hosting services for the Device Manager component of the solution and
  - [REDACTED] procured a logistics provider who will receive deliveries of 4G CHs from the manufacturer, store the devices securely, and deliver 4G CH orders to customers

### Activities driving change in resource in RY24/25 and forecast years

These roles were unaffected by the changes made to the structure of the function and as such, there is no expected increase in cost in outer years. This sub-team is not impacting the variance in Commercial Operations for 24/25.

Key activities on Major Programmes for 24/25 include:

- DSP
  - Conclude the re-procurement of the DSP Data System and System Integrator
  - Obtain a FBC non-objection
  - Planning next phase delivery in conjunction with the successful vendors
  - Engagement with DESNZ and customers
  - Delivery of the Design and Build phase through to early 2026
- 4G CH&N
  - Management of the Design, Build and Test (DBT) element of the CH&N programme, including multiple payment milestones associated with testing completion and operational service readiness

### 1.4.2. Procurement

The Procurement team is accountable for procuring and re-procuring goods and services valued over £100k and those in major programmes - typical values £10m - £500m – on behalf of the DCC, in line with the approved Procurement Policies, Strategy and Procedures. The team also provide support and assurance on DCC's procurement of goods and services below £100k and on strategic contract and supplier management activity.

### Activities driving change in resource in RY23/24

As previously mentioned, the Commercial function undertook an organisational re-design in April 2023 which brought together commercial business partners with procurement staff, expanded the Commercial Operations and Planning team and created a new Strategic Supplier Management team. As a result of this restructure, the function underwent a consultation period which resulted in 11 staff members, out of a total of 45, leaving the business.

Our organisational re-design resulted in several members of the procurement team with the wrong skills for the evolving organisational needs leaving the business and being replaced by individuals with more relevant skills. The jobs market has been more competitive than we anticipated for the specialist skills we need - as a result we have had to use contractors in the short-term whilst we recruit suitable permanent staff.

The recruitment process proved to be more challenging and prolonged than initially anticipated and a scarcity of suitable candidates with the necessary skills and experience protracted our efforts to identify and secure the right

talent for vacant positions, meaning contractors were used for longer than anticipated. This use of contractor resource for longer than forecast resulted in the £0.818m overspend reported.

Key activities for RY 23/24 included:

- Executed over 200 >£100k sourcing activities
- Increased levels of DESNZ and Ofgem engagement – particularly related to the commercial pipeline and continuity of service
- Led negotiations on all the Network Evolution sub-programmes
- Recruited 26 headcount reducing the requirement for consultants to support the day to day activities.
- Support transformation and implementation of new systems, tooling and processes
- Developed a new Commercial Strategy and Policy streamlining the procurement process to support the business
- Creation of Category Management team with target dates for completion of initial strategy documents

### **Activities driving change in resource in RY24/25 and forecast years**

We are forecasting lower costs for RY24/25 and RY25/26 due to a reduced reliance on contractor resource and further realisation of the benefits delivered by our transformation programme.

Recruitment will continue throughout RY24/25, with RY25/26 being the first full year of a completely resourced Procurement team, hence the cost variance of [REDACTED]. One recruitment is complete, the Procurement team will consist of 24 FTE, nett 2 less resource than we had at the end of the RY23/24. The new-look team, consisting of Category Management and Sourcing, will be focused on delivery against the Procurement vision, centred around:

- Moving to a smaller number of Strategic Suppliers for different Categories
- Buying and spending faster and wiser with pre-defined work packages and up to date market rates
- Driving innovation, best practice and Value for Money for customers together with the Strategic Suppliers
- Creating enduring competition with contested in-life change and no artificial lock-in
- Automating transactional spend with new iValua tool

## **1.4.3. Vendor**

### **1.4.3.1. Contract**

Contract Management (CM) is a crucial aspect of sourcing and supply chain management, essential for delivering the value our business requires. After the conclusion of sourcing activities, our Contract Management team serves as the engine that drives value across the supply chain. Our Contract Management team focus on building robust relationships with suppliers, ensuring they not only meet the contractual terms but also exceed expectations and make continuous improvement throughout the supply chain. It is well established best practice in our industry and related industries with large supply chains for this function to exist. It increases the number of bidders we get for procurement exercises we run by keeping up relationships and giving them a forward view, enforcing contractual terms better, and encouraging suppliers to exceed expectations."

As part of our desire to strengthen DCC's commercial capability and establish a Commercial function better able to meet future challenges, our commercial transformation resulted in several changes to headcount across the Contract Management team. The additional headcount was required to ensure DCC can manage existing BAU requirement across all managed and strategic contracts whilst recognising increased stakeholder engagement (DESNZ, Ofgem and Strategic Customers & Suppliers) and the delivery of strategic programmes.

Further to this, our drive for continuous improvement and our adoption of new commercial processes, governance and digital tooling required a resource increase within 23/24 and 24/25 to support the Design, Build and Implementation of DCC's new commercial strategy. This will see a rise in headcount within the Contract Management team.

We have a £3.218 million material variance across the Vendor Management sub-team forecast for the regulatory period of 24/25. This is primarily due to the fact that our forecast cost for this year, as reported in our 22/23 submission to Ofgem, were largely disallowed, resulting in a £0.453m baseline and therefore nearly all forecast cost incurred next year are shown as a variance.



The Contract Management team moved over to the newly formed Design-Build-Run Pillar for the RY24/25, as such all costs will be moved out of Commercial in future submissions.

### **Activities driving change in resource in RY23/24**

Over the course of RY 23/24 the number of fully managed contracts by the team increased from [REDACTED], c. 23%, driven by a desire to optimise commercial outcomes through disaggregation. As the number and complexity of DCC's external service provider contracts has grown, and with the large number of Contract & Procurement initiatives within the Commercial pipeline, we have needed to adjust the capability of the Contract Management team as follows:

- Recruitment of 1 new 18 Month role entitled 'Commercial Programme Director for Continuity of Service' to support SMETS1 during the sunsetting of 2G and 3G.
- Promotion of 1 Contract Manager to Senior Contract Management to support the critical DSP Re-procurement and disaggregation of the services.
- Recruitment of 1 new Commercial Manager with the responsibility of coordinating, governing and designing an enduring solution to streamline the existing Board Paper process whilst ensuring cohesion across the commercial function.
- Recruitment of 2 new Contract Managers to backfill existing Contract Managers to maintain the team's capability and support as part of Commercial and the on-going management of fully managed contracts.

Additional FTE was required to complement the existing Contract Management team in order to enhance team maturity and, in particular, incorporate greater governance and controls across Contract Management. The need for increased capacity was recognised in the 22/23 OPR audit which outlined "with the increase in headcount within the Contract Management team, there is adequate resource applied in a balanced way across the lifecycle" and "This revised approach to contract management is commended by the Auditor".

The increased capacity within the team has resolved previous deficits impacting SMETS1, SMETS2, CH&N, ECoS, and our DSP teams. It will also enhance our capability in the long-term, as our maturity journey continues during RY24/25, driving increased governance, adherence, and adoption to the fundamentals of the Contract Management principles and processes within DCC.

Furthermore, the additional headcount was required to ensure DCC can manage existing BAU requirement across all managed and strategic contracts whilst recognising increased stakeholder engagement (DESNZ, Ofgem and Strategic Customers & Suppliers) and the delivery of strategic programmes.

Further to this, our drive for continuous improvement and our adoption of new commercial processes, governance and digital tooling required a resource increase within 23/24 and 24/25 to support the Design, Build and Implementation of DCC's new commercial strategy. This will see a rise in headcount within the Contract Management team.

The benefits for the commercial function and the wider DCC will come from the maturity of the team, enabling increased adherence and adoption to the fundamental requirements, these include:

- Better understanding of our contracts and the risks which can be better managed and mitigated therefore reducing costs and potential disputes.
- Our suppliers being held to account over obligations and ensuring they are delivering in accordance with their contracts and services paid for by DCC.
- Increased control and rigour to build trust in the Contract Management function to deliver, drive value, pipeline management and make decisions.
- Both External & Internal audits will see a significant improvement in the governance and structure within both the engagement and evidence.
- Finalisation of the Contract Management Handbook providing all members of the DCC Commercial function with a detailed understanding of our processes, expectations, and the responsibilities across the commercial function.
- Continuation of Level 5 Process Implementation, following on from the success of Material Controls, to improve and automate strategic processes within Contract Management which will be underpinned by at least one of the Key Performance Indicators (KPI's) within Material Controls, measuring the effectiveness of the team managing individual contracts,
- Accountability in the team will continue to drive the right culture, as part of maturing Contract Management and upskilling the competence of resources.

## Activities driving change in resource in RY24/25 and forecast years

Over the past few years, Contract Management and our Design, Delivery and Operation functions through a strong collaborative working ethos, have organically gravitated together to become more successful, therefore bringing the teams together formally with one set of priorities, goals, and accountability we can really accelerate a stronger “One Team” delivery and culture for our customers.

With effect from 1<sup>st</sup> April 2024, Contract Management has migrated from Commercial to become an intrinsic part of the newly formed Design-Build- Run unit as a functional pillar within Run alongside Operations. Our focus and accountability will continue to deliver continued maturity and transformation of our Contract Management function, driving ‘Unified Ways of Working’, ‘Next Level Contract Management’, ‘Flexible Integrated Organisation’, ‘Systematic Commercial Approach’ and ‘Enhanced Digital Capabilities’.

Over the course of RY24/25 the team will absorb the management of all contracts across DCC. This will result in 67 contracts being fully managed and a further [REDACTED] contracts being partially managed, bringing the total number to over 300 contracts. In order to accommodate this increased volume of activity, the Contract Management team will grow by an additional 13 heads.

The enhanced development of our digital tooling will continue throughout RY24/25, with further functional releases to our Contract Management toolset. This will enable the fundamentals of Contract Management to be delivered through a centralised tool, providing real-time Management Information (MI) and automation to processes for increased accountability and accessibility.

In addition, the team are undertaking an array of improvement activities in order to:

- Ensure continuity of services: standardise and consistent contract management approach to all DCC contracts.
- Ensure sufficient time to evaluate our Contract & Procurement Pipeline to enable consideration of the commercial options to demonstrate value for money.
- Fully integrated and embedded contract management process, to fully anticipate business needs.
- Develop a single source of truth contract database that enables visibility and proactive management of contract expiry across all contract elements within DCC irrespective of ownership.
- Creation of a more professional contract management organisation aligning to overall DCC programmes and lifecycle to maximise value added to the business.

Resource costs for Contract Management in RY25/26 are forecast to increase as vacant positions are filled within the team. However, by the end of RY26/27 we will seek to drive a c.7 FTE headcount reduction vs RY24/25 by:

- Developing category strategies to consolidate the number of contracts and suppliers we have to manage.
- Segment contracts more effectively to facilitate a more efficient approach to management and optimal use of specialised knowledge and skills
- Implement a new Master Services Agreement (MSA) with standardised terms and conditions, reducing the need for individual management efforts and reducing administrative burden
- Consolidate re-procurement and extension programmes to reduce the number of procurement cycles
- Streamline governance to reduce the size of the team and free-up Contract Managers to focus on more strategic tasks.

### 1.4.3.2. Strategic Supplier Management

The SSM team have been focused on embedding a new Third Party Risk Management (TPRM) process in DCC. This is a new framework which allows DCC to fully understand their supply chain risk and proactively mitigate issues. They have other core focus’ such as securing business intelligence, embedding new governance structures, releasing 360 reviews with suppliers, and are ultimately accountable for leading on the strategic management of our critical suppliers. All of which are helping DCC to achieve stronger partnerships with our core suppliers who are essential to the success of our future.

## Activities driving change in resource in

Following the operating model review in 2023, the Supplier Relationship Management (SRM) team was transformed into a new ‘Strategic Supplier Management’ team and made accountable for leading on the strategic management of critical suppliers.



Following the movement of the former SRM team members into the Operations function, the SSM team was under-resourced for a large proportion of RY23/24. 5 new FTE were recruited and onboarded by December 2023 and as a result, RY24/25 will see the first year of full costs for the new, full-resourced SSM team. However, this will broadly be in line with the forecast costs for the former SSM team.

### Activities driving change in resource in RY24/25 and RY25/26

Following the changes made to the team in RY23/24 we do not forecast any additional cost or changes to resourcing in outer years. All Vendor Management variance in outer years is covered in the Contract Management section.

#### 1.4.4. Recruitment

Variance	GL		RY23/24	RY24/25	RY25/26
Recruitment cost	RC	£m	0.511	0.003	0.000

In 23/24, we experienced increased recruitment and contractor resource costs as a consequence of 11 staff members exiting the business following a re-structure and consultation exercise.

The recruitment process proved to be more challenging and prolonged than initially anticipated. The market presented a significant shortage of qualified procurement professionals who met our high standards and specific qualifications (see Table 2 for more information). This scarcity of suitable candidates with the necessary skills and experience delayed our efforts to identify and secure the right talent for vacant positions. The function views it as vital that we recruit professionals that will have the specific skills DCC needs to deliver high quality outputs, as well as recruiting in a way that will ensure longevity in the role, to ensure customer money is being used in the most efficient way.

To mitigate the impact of these staffing shortages and ensure continuity of operations, we had to rely on temporary staff. These contractors were brought in to provide the specialist skills required until we could find permanent replacements. This interim solution, while necessary, contributed further to the increased costs we experienced during this period which are outlined in the External Services section.

**Table 5: Procurement recruitment statistics from the 1st recruitment**

Job Title	Vacant Roles	Applications	Rejections	Screened	Shortlisted	Offers Accepted

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

During RY23/24, there were 7 individual procurements within Commercial that had material variance, (i.e., over £0.15million). The breakdown is provided below

**Table 6: Non-Resource Variances in Commercial Cost**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement Type
Commercial Academy	ES	£m	-	0.370	0.370	

Commercial Advisory Support	ES	£m	0.406	-	-	
DCC Commercial Transformation	ES	£m	0.297	0.122	-	
Jeopardy Management and Commercial Pipeline	ES	£m	1.236	-	-	
Responsible Business Framework Consultancy & Tooling	ES	£m	-	0.240	0.100	
SSM Third Party Risk	ES	£m	-	0.283	0.270	
eProcurement Tool - iValua	IT	£m	0.159	0.156	-0.200	

## 1.6. RY23/23 cost variances

### 1.6.1. Commercial Advisory Support (SSP0137a, b and

—

This expenditure relates to specialist Commercial advisory work for specific, time-bound, procurement and transformation activity, where targeted expertise was required to provide in-depth market knowledge, access to specialist industry insight and expertise in similarly complex procurements. DCC did not possess this expertise internally, and it would be uneconomic for us to possess these skills internally given we only needed them for a finite period and specific projects.

Furthermore, permanent recruitment for vacancies into the Procurement team was proving difficult due to a significant shortage of qualified procurement professionals who met the calibre and specific qualifications we needed. As a result, it was determined that these roles couldn't have been filled recruiting permanent staff or contractors, were that our preferred option.

#### Transformation

In order to successfully embed the commercial transformation we required a commercial transformation expert to; manage the implementation; provide coaching on best commercial practices to our senior commercial team; setup the infrastructure to upskill our commercial team on an enduring basis; and develop and implement a sound methodology to forecast resourcing needs.

This could not be resourced internally due to (i) the timebound nature of the need, making it not value for money nor practical to hire a permanent employee, (ii) the very specific nature of the skillset required (including but not limited to implementing organisational change, change management, advanced commercial analytics, category management, commercial best practice know-how, process mapping and implementation, stakeholder engagement at all level of the organisation) and (iii) the capacity constraints both within the Commercial team and across the organisation.

The enduring Procurement team can now execute against the output of the transformation, therefore there is no over reliance on external help.

#### Specialist Procurement Activity

Only 2 Senior Procurement Managers remained in the business following the re-structuring of the function and specialist expertise was required to input into the Commercial Strategy for the DSP programme, provide DSMS Technical input into structuring the strategy, market engagement, and ITT and provide guidance on industry best practice in order to secure a solution that meets DCC's requirements.

The procurement advisor had been working on other DCC programmes for some time with an exceptional track record of timebound delivery. It was determined that the knowledge that advisor had gained over time couldn't easily be replaced or replicated internally, and continuity was integral for the success of these programmes.

#### Securing Value for

We determined [REDACTED] to be the optimal value for money option by:

- Benchmarking the day rates against consultants with like-for-like experience and expertise from [REDACTED]

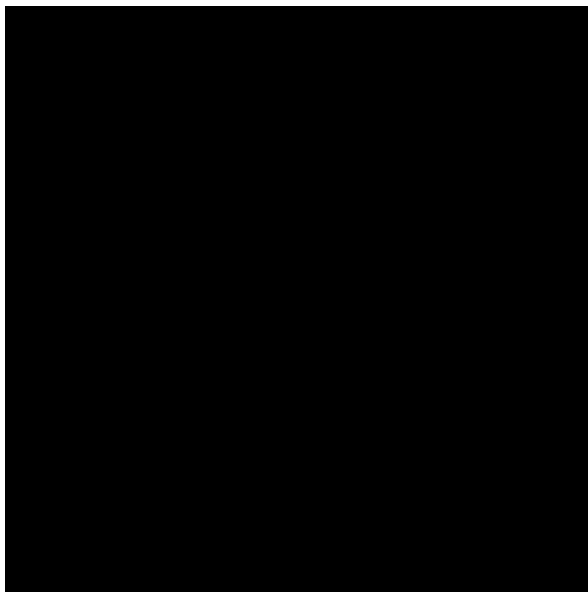
- The day rates were aligned to the original framework agreement with [REDACTED] which was established following a competitive RFP process.
- The consultant deployed has unique knowledge of DCC, the Commercial function and can provide valuable synergies with the ongoing transformation programme thanks to prior engagement with DCC.
- Due to the expert and time-bound nature of the work it is not possible nor desirable for DCC to perform this work with internal resources.
- Not completing this work would jeopardise the overall Commercial Transformation whilst also putting additional pressure on an already under-resourced and overstretched procurement team.

It is also important to consider the cost of internal resource for DCC to run a competitive Request for Proposal (RFP) process, which, coupled with the cost of suppliers to bid for work (often passed onto the customer indirectly), resulted in us taking an alternative Vfm in this instance. The cost of executing an RFP would likely have been greater than the value of the work itself and therefore we determined it an economic and efficient decision to undertake a single source procurement.

### Evaluation of Costs versus Benchmark

A benchmark of rates versus DCC’s other Consultancy Framework suppliers was carried out in April 2023. The outcome is shown in the table below.

Table 7: Benchmarking results for procurement of Commercial Advisory

The table content is completely redacted with a large black rectangle.

The table and rates above, along with the need detailed in the previous section, demonstrate that it was economic and efficient to procure this work directly with [REDACTED] and that DCC didn’t possess the expertise to complete the requirement internally. It is also important to factor in the internal time and cost it would have taken DCC to run a competitive exercise, as well as suppliers who will factor in costs of the competitive exercise into their pricing. We have been able to demonstrate significant value for money through other means.

## 1.6.2. DCC Commercial Transformation

### Driver for the Procurement

Whilst we had long expected an increase in workload as DCC evolved, we needed to gain resources in a more competitive jobs market than anticipated. In tandem, we were reforming our Commercial function more widely and did not want to prematurely recruit for the wrong skills or in a manner inconsistent with our long-term set-up (eg insourcing something our strategy then wanted to outsource). As a result, we have contracted with temporary resources, in order for us to have the right and most cost-efficient longer-term solution for RY24/25 and beyond. We consider this is in the interests of our stakeholders and consumers.

A number of critical roles that needed filling are outlined below:

- 2 x Procurement Manager roles to support the increased volume of transactional procurement taking place. This work was predominantly to contract for professional services and the extra procurement staff were to work in the Operational Procurement team. This would also free up existing long term skilled DCC Procurement staff to support Procurement Target Operating model implementation projects. Thus, helping to ensure successful delivery of these transformations.
- 2 x Senior Procurement Manager roles to manage the heavy procurement workload across several ongoing programmes, including DCC Service Management Services (DSMS), Order Management Systems (OMS), and CH&N Logistics.
- 2 x Senior Supplier Relationship Managers to support the existing reduced team, provide coaching and support with the running of operations.

Following a competitive process with five invited potential bidders, it became clear that [REDACTED] demonstrated higher levels of expertise and experience, specifically in Supplier Relationship Management, and offered more senior personnel with a depth of knowledge and proven track record of handling complex tasks efficiently. This level of proficiency was essential for the success and so the contract was awarded to [REDACTED] for the initial provision of two Senior SRM expert resources.

[REDACTED] were the cheapest bidder and demonstrated they could provide what we needed, following successful candidate interviews, for the remaining roles and so the remaining requirement was awarded to them under a separate contract. This section covers the [REDACTED] contract only, with the [REDACTED] spend covered in the next section.

### Securing Value for Money

The Procurement process for a Commercial Support Partner followed the normal competitive tender process with Market warming sessions followed by a 5 stage RFP process.

The procurement process consisted of five stages:

- Stage 1 – The submitted proposals were be evaluated and scored against the agreed evaluation criteria. A financial stability check was also carried out for all bidders.
- Stage 2 – Following the evaluation of the submissions, DCC invited shortlisted bidders to attend a presentation session at DCC's London office in Ibex House. Following the presentations, scores were revisited to reflect the content of the presentations.
- Stage 3 – Further negotiations were conducted including Best and Final Offer (BAFO).
- Stage 4 – Further Presentations/Interviews were carried out following on from BAFO.
- Stage 5 – Contract Award

Market warming sessions took place, and briefing sessions with Bidders were conducted following issuance of the RFP on 5<sup>th</sup> December 2022. Pre-qualification of non-framework suppliers was completed via supplier questionnaire. 6 bidders entered the formal RFP process with [REDACTED] later withdrawing after the RFP was issued. We selected a number of suppliers with specific expertise in this area.

Expressions of interest were sent to the following and all confirmed their wish to participate:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The criteria used for evaluation of submissions is provided in the table below.

### Table 8: Evaluation Criteria of bids for procurement of Commercial Support

1. *Journal of the American Medical Association*, 2000; 283: 2689-2693.

Proposals were independently evaluated and were followed by a moderation meeting to discuss the individual scoring and agree a successful bidder.

### Table 9: Summary of Procurement Approach

<b>Procurement – Commercial Support</b>		
<b>Number of Initial invitations to tender</b>	6	
<b>Number of Bids received</b>	5	
<b>Number of Bids shortlisted / presenting</b>		
<b>Strengths of Selected Bidder</b>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> </ul>	
<b>Challenge by DCC</b>	<b>Initial Price</b>	<b>BAFO</b>

## Driver for the extensions

Following the conclusion of the consultation in June 2023, we started an intense recruitment drive to fill the positions in Commercial. We had to conform to clear directives to complete the consultation and allowing all impacted internal candidates first opportunity on any existing or newly created role. In addition, the process of attracting and onboarding the right candidates proved lengthy, due to (i) the labour market conditions for Commercial professionals, (ii) the performance of the RPO and (iii) the length of the onboarding and vetting process, given an assumed notice period of 3-months or more months for candidates.

A summary of the challenges we faced during the recruitment process can be found in the Cost Centre Variances section.

Following the initial scope, further short-term expert resources were deployed to support Commercial through the sustained peak workload which could not be resourced internally and could not be recruited for due to the ongoing consultation process. Those included:

- Commercial Operation and Planning Senior Manager – to support the Commercial Operations and Planning team, which was down to 2 permanent employees, with business-critical activity including regulatory compliance,
- 2 Senior Procurement Managers to provide immediate, short-term support on the accelerated DSP re-procurement programme.
- Extension of Senior SRM resource to support (i) ongoing transformation and (ii) ensure coverage and business continuity following consultation while new resources are recruited

All of the above resources have been priced according to the same rate card agreed with [REDACTED] following the competitive process during which those rates have been demonstrated Value for Money for the grade, seniority and expertise provided by those resources (see Value for Money section). Resources have been selected based on CV review and interviews to ensure quality. Furthermore, the rates from [REDACTED] have not been revised for inflation since July 2022.

### Value for Money tests

In assessing the extension to the scope of work, we evaluated the option to re-compete the scope of work and determined it would not bring better value for money for the following reasons:

- [REDACTED] rates have been demonstrated competitive both versus the market and versus the Consultancy Framework in 3 distinct separate competitive processes that took place in July 2022, November 2022, and December 2022.
- The rates agreed with [REDACTED] have not been revised for inflation since July 2022.
- The discount structure agreed with [REDACTED] allow DCC to capture additional value from expending [REDACTED] scope of work.
- [REDACTED] unique understanding of Commercial, DCC and synergies with the on-going transformation programme.
- The proposals from bidders in the initial competitive process were evaluated both on the initial scope and potential increases in scope.
- Due to (i) the expert and time-bound nature of the work and (ii) recruitment difficulties explained above, it is not possible nor desirable for DCC to perform this work with internal resources.
- Not completing this work would jeopardise the overall Commercial Transformation.

The original scope was [REDACTED] tendered, with [REDACTED] being the winning bidder from both a quality and cost perspective.

**Table 10: Summary of approach for**

Procurement – Commercial Support (DCCT0352)		
Number of Initial invitations to tender	6	
Number of Bids received	5	
Number of Bids shortlisted / presenting	[REDACTED]	
Strengths of Selected Bidder	[REDACTED]	
Challenge by DCC	Initial Price	BAFO
	[REDACTED]	[REDACTED]

Continued value for money can be demonstrated through the [REDACTED] procurement of the procurement support service. Annualised costs were negotiated down and therefore cheaper than contractor appointments into the vacant commercial function roles. We also had the flexibility to roll off resources efficiently as permanent recruits were onboarded.

<b>Grade</b>	
Procurement Manager	
Senior Procurement Manager	

### 1.6.3. Jeopardy Management and Commercial Pipeline – [REDACTED]

We brought in specific expertise to lead on the design, build and deployment of a new Commercial Pipeline. The activities required included gathering and processing large amounts of commercial and contractual data, engaging key stakeholders across the organisation and leveraging industry back practice to develop the associated process, training and change management material.

We did not possess these skills or the capacity in-house and this was a one-off piece of work to deliver a step-change in how we manage, forecast and plan for future commercial pipeline activity. As such, recruiting and maintaining a team of suitably skilled individuals in-house would be very inefficient, with limited use for their skills post project completion.

The initial phase of this project (Phase 1) commenced in January 2023 with the aim to immediately address the risk linked to a lack of comprehensive visibility of upcoming commercial activity and associated business cases.

Phase 2 was to stabilise and manage the pipeline, which included:

- Design and roll out a process that facilitates stable and proactive multi-year forward looking pipeline management, using embedded approval gates and resource management to ensure activities on time and to a high standard
- Ensure that DCCs becomes more aligned cross-functionally and better at forecasting and planning activities
- Use reporting tools to manage the pipeline activities, approvals making it easily visible to DCC Stakeholders and ensuring there are date and time stamps on any changes.

In developing a digital Commercial Pipeline which includes all prospective commercial initiatives across Commercial (Procurement, Contract Management, SSM and Transformation) we have already delivered a raft of benefits, including:

- Created a single source of truth for commercial initiatives (procurement, contract, SSM) and timelines
- Created Point of reference for other business areas where they can self-serve reducing the information requests
- Enabled proactive resource planning to deliver the planned activities in time, alerting the business to impending risks and driving decision making accountability
- Enabled a new platform for Benefits and Savings forecasting, logging and tracking

The contractor has handed over the enduring management of the Commercial Pipeline to the Commercial Operations and Planning team with no consultancy cost related to the pipeline anticipated for RY 24/25 onwards.

#### Securing Value for Money

A robust, competitive sourcing exercise was carried out, via RF, to procure this service.

The procurement process consisted of five stages:

- Stage 1 – The submitted proposals were be evaluated and scored against the agreed evaluation criteria. A financial stability check was also carried out for all bidders.
- Stage 2 – Following the evaluation of the submissions, DCC invited shortlisted bidders to attend a presentation session at DCC's London office in Ibex House. Following the presentations, scores were revisited to reflect the content of the presentations.
- Stage 3 – Further negotiations were conducted including Best and Final Offer (BAFO).

- Stage 4 – Further Presentations/Interviews were carried out following on from BAFO.
- Stage 5 – Contract Award

Expressions of interest were sent to the following suppliers, with those choosing to respond highlighted in bold

- [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

The criteria used for evaluation of submissions is given in the table below.

**Table 11: Bid Evaluation Criteria for Bid for Design, build and deployment of Commercial**

1. *Journal of the American Medical Association*, 2000; 283: 2639-2645.

Proposals were independently evaluated, and the individual scoring discussed to agree a successful bidder.



Table 12: Summary of procurement approach for Commercial Pipeline Support and Jeopardy

Procurement – Commercial Pipeline Support and Jeopardy	
Number of Initial invitations to tender	6
Number of Bids received	3
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	

### Driver for the extension

As the Commercial Pipeline implementation progressed, additional requirements became apparent post the initial scope to review and optimise processes interlocked with the Commercial Pipeline and Jeopardy Management.

Those requirements include:

- Hands-on training for the existing and newly onboarded commercial team
- Hands-on training for non-commercial pipeline users
- Developing an interim PO process and contract mapping
- Review and re-design of the Contract Change process and the dependencies with the Commercial Pipeline.

Failure to address these additional requirements would have led to the Commercial Pipeline implementation being unsuccessful and unlikely sustained.

Therefore, the contract was extended for an additional 6 months to ensure (i) completion of all interlocked deliverables and (ii) recruitment, onboarding and orderly hand-over into the permanent team.

### 1.6.4. eProcurement Tool - iValua

In June 2022, as part of the Commercial Transformation, DCC commenced a review of its source to pay (S2P) process strategy and sought independent guidance on how existing tools and system compared to industry standard. The findings of the review, conducted by [REDACTED], found that:

- DCC did not have an end-to-end source to pay technology solution in place making it difficult for commercial, Finance and the operations team to perform standard sourcing, purchasing and invoicing activities in a controlled way
- DCC had inefficient and often manual processes due to the lack of adequate systems and processes, and relied on a multitude of disconnected tools that do not talk to each other and Capita's SAP System

The report recommended that:

- DCC had gaps in its existing S2P process, however, many issues/pain points could be resolved by focusing on simplification and addressing the source to requisition process
- DCC adopt a market leading S2P technology solution, boosted by power applications where needed, to solve the identified pain points by initially focusing on the source to requisition process
- Doing so would simplify and future proof the IT landscape for the mid/long term, whilst delivering the capabilities and ways of working to cross functional stakeholders across the organisation

Therefore, in March 2023, DCC procured a new commercial system to manage end-to-end commercial processes from sourcing to requisition. The implementation of the new system was handed over to the Commercial Operations and Planning team in August 2023 and incorporated into the Commercial Transformation programme. The new tool will facilitate the digitalisation and automation of key commercial processes and promote transparency and greater auditability of activity and contracted costs throughout the contract lifecycle.

### **Benefits of implementing iValua**

Our contracts are getting more complex, and the value of our contracts are significant. In order to reduce risk of poor management we needed to move from manual processes to automation and technology solutions such that we have accurate visibility of committed costs and accurate key contractual information to more effectively manage them

With that in mind, the benefits of implementing iValua include:

#### **Procurement**

- Capture all sourcing activity and required mandatory procurement artefacts
- Remove the current manual processes within the procurement team, such as a reliance on email approvals and manual data entry processes
- Decommissioning of Curtis Fitch, the self-serve procurement tool, saving £28k p.a.
- Facilitate automated governance controls, such as approval flows and ensuring all mandatory artefacts and mandatory licence obligations are complete, evidenced and reportable
- Develop and continuously enrich one source of quality master supplier data, including time sensitive mandatory documents such as Insurance Certificates, H&S Compliance and Quality Accreditations, utilising a self-service web portal to minimise DCC administration
- Allow greater reporting functionality for live, detailed, accurate reporting and dashboards of procurement pipeline and in-progress activities
- Access to spend analysis

#### **Contract**

- Hold a full contracts repository and provide automated alerts to manage the contract expiry process.
- Manage the contract lifecycle including a high volume of contract change, contract obligations tracking and contract renewals/ extensions
- Provide visibility of key contractual information such as KPIs, service measures, notice periods, extension options
- Potential home for the Commercial Pipeline, enabling the decommissioning of e-Flow in future years. This still required further exploration

#### **Finance**

- Allow for purchase requisitions to be raised in the system against contracts to provide accurate spend reporting at a contract level.
- Automated raising of PO orders in SAP vs the manual process executed today
- Allow for pricing models to be reported against for spend and budget visibility

#### **General**

- User friendly experience with enforced workflows which guide the user on their journey through the process
- Provide one source of the truth in relation to commercial and financial information
- Create a clear audit trail in terms of decision points, approvals, and documentation

- Automate the governance processes with all the background information in one place and in a standard format
- Support knowledge management through having a full project history in a single repository to ensure continuity and minimise disruption upon changes in staff

### Potential Future

Once the core iValua modules have been implemented, there is the potential for DCC to explore other use cases and enhanced capabilities, including the exploration of the use of Generative AI for:

- Contract Summation & 'Chat' with your documents: Summarise a contract document, pulling key obligations, risk and metadata: Answer questions regarding any document, pull relevant information out, summarise and more
- Questionnaire Assistant and RFP Proofread: Draft a questionnaire based on simple instructions and configure that within a campaign: Proofread and suggest improved RFP content (e.g., describing the process, providing an overview of the project)
- Category Intelligence Assistant: Research a specific category to compile market intelligence reports based on impact, risk and recommended actions
- Mass Communication: Assists you in crafting communications to suppliers based on simple instructions

### Procurement

In line with Licence Condition 16 and the approved sourcing strategy a [REDACTED] procurement exercise commenced in July 2022 with relevant stakeholder approval and included:

- Market engagement activity via RFI in March 2022
- 13 suppliers engaged in the RFI
- 8 suppliers demonstrated their platforms as part of the RFI process
- Approval of requirements and RFP in July 2022
- 5 suppliers invited (listed below) to RFP issued July 2022
- Bids received from Touchstone (Ivalua), GEP and I-Associates
- Stakeholder individual evaluations
- RFP evaluation panel moderation meeting (Touchstone (Ivalua) and GEP shortlisted)
- Supplier security and integrations calls with DCC Security and EIT
- Supplier scenario demonstration scoring moderation
- Smart DCC supplier clarifications
- DCC commercial leadership team presentations & feedback
- Future opportunities presentation (SRM & ESG) & feedback
- BAFO
- DCC commercial leadership team supplier discussions
- Reference calls
- Final scoring moderation following commercial leadership team feedback

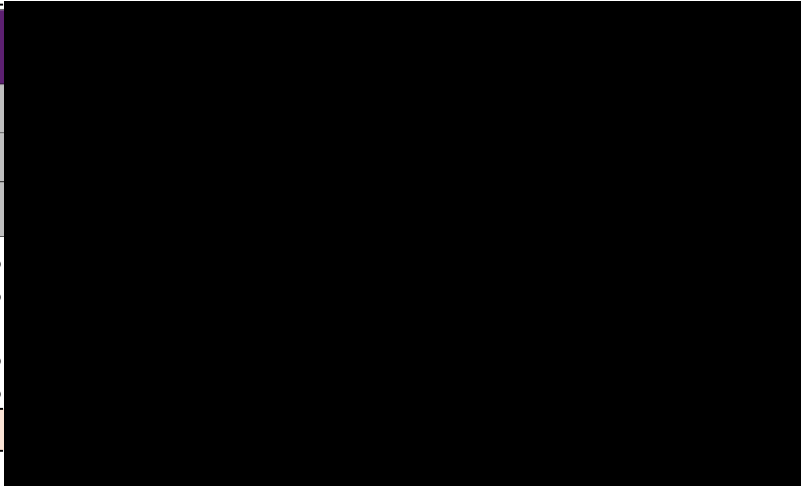
### Securing Value for Money

As above, a full competitive tender exercise was run to ensure optimum value for money. Additionally, the following mechanisms have been included within the contract to support the implementation of the system and ongoing success:

- Incentivised milestones for system implementation
  - Key implementation milestones have been negotiated with Touchstone which are linked to payments.

- Robust acceptance criteria have been stipulated for each of these providing DCC with control on approving
  - when the milestone has been met.
  - Approximately 12% of the fees have been held back following a successful go-live of the system for 6 months.
- Service level agreements and service credits for system uptime
  - Monthly service review meetings and annual executive reviews

**Table 13: Summary of Approach for Procurement of**


Procurement – Ivalua	
Number of Initial invitations to tender	8
Number of Bids received	6
Number of Bids shortlisted / presenting	2
Strengths of Selected Bidder	
Challenge by DCC	

## 1.7. RY24/25 and RY25/26 cost variances

### 1.7.1. Commercial Academy

#### Driver for Procurement

The Commercial function set up a Commercial Academy framework to frame and support the ongoing professionalisation of the function in the most cost-effective way possible. It will enable our Commercial team to succeed in their current role and prepare them for the next step on their career path within DCC. The Commercial Academy aims to address these key objectives:

- Following the Commercial Transformation, we expect our team to possess a wider and deeper skillset. As the function becomes more professional and strategic, we need to align our team's skill set with this expectation.
- By increasing our permanent team capability, we allow our permanent staff to cover a wider scope of activities, effectively reducing the reliance on third party expertise by bringing it in-house at a much more competitive price-point.
- We need to operate in a highly competitive market for Commercial professionals, with the labour market has been challenging since the pandemic. Feedback from recent interviews reveal that coherent L&D offering, active support in team development and support to obtain recognised professional certification (e.g. ) is necessary to present a competitive option to potential candidates in this market.
- We can expand the pool of potential hire by growing the right candidates into their role. Due to (i) the difficult labour market and (ii) the specific context in which Smart DCC operates, there is rarely a "perfect"

candidate from day 1, it is therefore critical that Commercial has the right infrastructure to grow candidates with the right foundation.

- Improve retention, employee satisfaction and job performance. Teams that feel valued, invested in and can see a clear career path on which to develop and progress within the organisation are more likely to be retained, thus reducing turnover and associated costs.

Several building blocks of the Commercial Academy Framework were identified as best delivered through a third party to leverage market expertise in topics not available in-house and access best practice, off-the-shelf training programmes. In addition, we expected the provider to deliver industry recognised certifications for the function and our team in order to demonstrate the positive impact of the training delivered.

We wanted to also explore the suppliers' capacity to run a robust assessment of our team skills in order to tailor the training programme to the individual's development needs, ensuring the training delivered is fit for purpose and to maximise the benefits and value for money.

### **Securing Value for Money**

Our market research identified four suppliers that were invited to tender based on a pre-assessment of their capabilities against the requirements.

Three categories of potential providers have been considered and their capability to deliver the requirements analysed:

- Generalist training providers – Strong on generalist skillset such as interpersonal and leadership skills. However weak on commercial specific technical skills that are the scope of the RFP.
- Commercial consultancies – Often possess a training offering alongside their core consulting offering. Strong on technical knowledge but weak on training planning and delivery.
- Commercial L&D specialists – Training providers specialised on commercial technical skills. Intersection of the above two offering the depth of functional expertise required as well as the ability to structure and deliver effective trainings.

Based on this research, the following four suppliers were identified as suitable bidders for the RFP and were invited to tender:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

A two staged RFP process was adopted consisting of initial bids, clarification and supplier presentations and then best and final offers. The weighted evaluation criteria consisted of 70% quality and capability and 30% cost.

A cross-functional panel reviewed each shortlisted bidder proposal and supporting documentation. The panel had representation from each Commercial team as well as from DCC L&D.

Each team representative was tasked to evaluate the suitability of the bidder offering against their own team requirements and needs. Meanwhile, a DCC L&D representative evaluated the bidder offering against DCC L&D standards and industry best practice.

The Capability assessment showed that [REDACTED] met or exceeded the requirements of the Contract Management and SSM team. Meanwhile, [REDACTED] met or exceeded the requirements of the Procurement and CO&P teams. Both suppliers were assessed as having sufficient capability by L&D to meet DCC standards.

Consequently, we opted for a dual supplier allocation.

**Table 14: Summary of Approach for Procurement of Commercial**

<b>Procurement - Commercial</b>	
<b>Number of Initial invitations tender to</b>	5
<b>Number of Bids</b>	4
<b>Number of Bids shortlisted /</b>	2
<b>Strengths of Selected</b>	
<b>Challenge by</b>	

### Benefits summary

The proposed solution provides a number of benefits to DCC and the Commercial team that helps drive better Value for Money, as mentioned earlier:

- Providing a competitive advantage in recruitment that helps secure prospective employees at competitive terms
- Reducing reliance on third party expertise by increasing the capability of the permanent team
- Reducing employee turnover costs by improving job satisfaction and retention

### Landing the Commercial

The proposed suppliers bring the training and expertise Commercial need to build-up the skillset of the team. As part of the Commercial Transformation, we expect our teams to possess a greater breadth and depth of skills, moving from a tactical / reactive mindset to a strategic / proactive approach. This requires providing targeted training to build-up team competency. The proposed suppliers have demonstrated through the RFP capability evaluation as well as the supplier presentations that they have the right expertise and track record to deliver this to the standard expected by DCC.

### Reducing reliance on contractors and

In some cases, some specific skills might not be currently available in current team and may require DCC to rely on contractors and consultants to bring the required expertise. By bringing this skillset in-house, Commercial will be able to reduce its reliance on third party expertise.

### Recruit in a competitive market for Procurement

The labour market for procurement professionals, especially for people with expertise on technological categories which account for the majority of DCC spend, has been tense for a few years with multiple employers competing over a limited talent pool. By appointing the recommended providers, both established industry-recognised providers of training and certification in their respective competencies areas, to deliver trainings and certification to the Commercial team, DCC will have a strong competitive advantage to attract and retain employees at competitive salary level.

### Expand the pool of potential

As DCC brand recognition as an employer is limited, having a robust training offering through the recommended providers will also help to widen the recruitment pool by equipping Commercial with the capability to provide targeted upskilling of incoming employees possessing the right foundations.

### 1.7.2. Responsible Business Framework Consultancy & Tooling

#### Driver for the

This procurement will be to provide consultancy and tooling that will support the Sustainability team fulfil their objective to deliver positive impact through responsible, inclusive, and sustainable practices. As a new team, DCC's sustainability team is focussed on building the necessary foundations for robust long-term sustainability reporting and risk management.

For the first time, DCC will be publishing climate-related financial disclosures alongside its annual report. The process requires climate scenario modelling, which DCC has historically not had, or needed, the internal skills for. As it is the first year, DCC will also benefit from the expertise of a consultancy to advise on the appropriate process and narrative to ensure regulatory compliance.

#### Annual carbon emissions reporting [REDACTED]K]

Annual emissions carbon reporting is expected for a company the size of DCC, particularly given the role it plays in the decarbonisation of Britain. Previously we contracted the Carbon Trust to calculate and verify our carbon footprint each year. Going forwards, we are developing our own data dashboard, which will require an estimated [REDACTED]K in spend, but which will allow us to calculate Scope 1, 2 and 3 (business emissions) internally going forwards. External verification will still need to be contracted (estimated 15K) to provide credibility to the reported figures in our Annual Report.

#### GHG Inventory Support [REDACTED]K]

A full carbon baseline is required for DCC to understand its full carbon footprint, including the emissions of its value chain, which we can use to set meaningful reduction targets, as well as reduction strategies and engage our supply chain directly on our carbon reduction pathways. The scope of this is as follows:

- Produce a full carbon baseline (including Scope 3).
- Setting up the process for ongoing measurement of our carbon footprint, including supplier engagement
- Set carbon reduction targets in line with a science-based approach. This gives us the knowledge to redefine our sustainability corporate objective targets in line with a new approach.

#### Digital Tool [REDACTED]K]

A digital tool is required to free up time in the sustainability team for more strategic projects and reduce the opportunity for error in data management and reporting. It will also allow for a more streamlined experience for suppliers to engage with DCC on sustainability related information sharing. Having one central source of truth will empower colleagues across the Commercial team to utilise the information in their ongoing supplier engagement activities. The scope of this piece is therefore to implement a digital solution which suppliers can engage with for Scope 3 emissions tracking and sustainability risk monitoring.

#### Additional consultancy support [REDACTED]K] [estimated]

- Support for Community of Practice initiatives.
- Define a suite of Responsible Business Framework KPIs to measure impact.
- Communications and branding support for RBF.
- Build a partnership strategy for Smart DCC to position itself as an ecosystem leader.

#### Securing Value for

This will be [REDACTED] procured in line with DCC Procurement Policy

### 1.7.3. SSM Third Party Risk

We have forecasted spend in 24/25 and 25/26 on this, with an option for a further year in 26/27.

#### Driver for

To ensure DCC's ability to identify risk within its supply chain, a framework has been built using key data inputs from both internal and external sources. This framework can be applied further to suppliers potentially entering the estate, through new procurements and downstream sub-contracting suppliers where there may be further potential risk providing significant benefits and assuring service stability.

As part of the data inputs for the Third-Party Risk Management (TPRM) framework, DCC requires 9 key areas of information from external sources.

**Table 15: Key areas of information from external**

Requirement	Purpose
<b>Company Structure profiling</b>	To better understand the structure of supplier companies including parent company and majority shareholder ownership arrangements and the potential impact of any insights
<b>Company Officer profiling</b>	To understand and determine any critical business or ethical alerts with regards to company officers (e.g. News, ExCo Exits, Sanctions, Directors of concern, Politically Exposed Persons, Watchlists etc)
<b>Supplier Business Insights</b>	Supplier business insight including Top clients, Top Suppliers, Industry Share, Staff Churn, Service/Industry Mix and future business opportunities in line with DCC core objectives etc
<b>Financial Insights</b>	Insight into the Financial stability of supplier companies including financial performance, liquidity, debt servicing, Shareholding patterns, financial distress signals etc.
<b>Supplier News</b>	Media and market screening to provide an overview of key public and private updates regarding Third Parties – additional focus on adverse media insight including screening of supplier ethical practice, litigation etc.
<b>Legal Insights</b>	Indication of any notable legal claims against or ongoing legal proceeding with Third Parties. Insight into any legislative impacts (both existing or future) that may impact the Third Parties operations.
<b>Degree of Dependency on Single Client and/or DCC</b>	Indication of Third Party's dependence on Smart DCC or a single client from a revenue and profitability perspective
<b>Merger &amp; Acquisition Probability</b>	Market insight into the probability of supplier mergers & acquisitions within the contract period and the implication of any M&A
<b>Revenue Pipeline</b>	Insight into the supplier's revenue pipeline over the available period to determine ongoing solvency as well as supplier growth opportunity

Due to the suppliers that DCC contracts and the jurisdictions in which they operate, it has been identified that DCC does not have the skills nor capability to harvest and/or translate this information. It has therefore been recommended that a procurement for Business Intelligence Due Diligence services would be required to support the inputs for the TPRM Risk Identification process.

#### High Level TPRM (Third Party Risk Management)

Identify - Supplier Watchlist Selection: Selection and Segmentation criteria was established in line with Licence conditions and Security obligations and recommends 22 Critical suppliers as a preliminary "Watchlist" that can disrupt DCC in meeting these obligations. Current watchlist has not included suppliers without PCG. This is not a fixed list and is reviewed regularly through segmentation of suppliers.



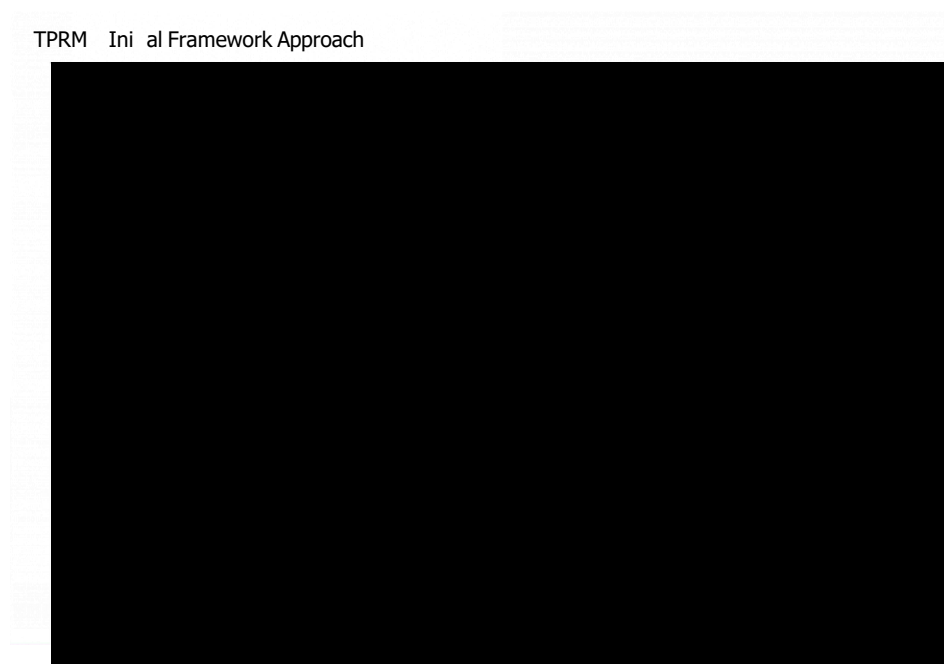
Supplier Profile, TPRM Inputs and Information Requirements (incl. Risk inputs) established, and Framework was updated. All [REDACTED] identified data sources were engaged to discuss requirements and gauge availability of data on an ongoing basis. These data sources coupled with the framework are being evolved, iterated and matured by the SSM team.

Based on the initial review, many sources used for the PoC were 'finger-in-the-air' or assumption based. SSM have now initiated 17 of the 22 feeds for regular input – 10 of which are readily available.

SSM will collate the 10 available inputs for all 23 watchlist supplier by the end of March 2024. Data will be run through the framework with output presented to R&A in April 2024. Mitigation planning with functions will commence thereafter if not already in place.

A number of in-progress feeds will progress through Q1 FY 24/25.

### Figure 3: Third Party Risk Management framework



Data availability and gaps were also reviewed.

### Procurement Approach

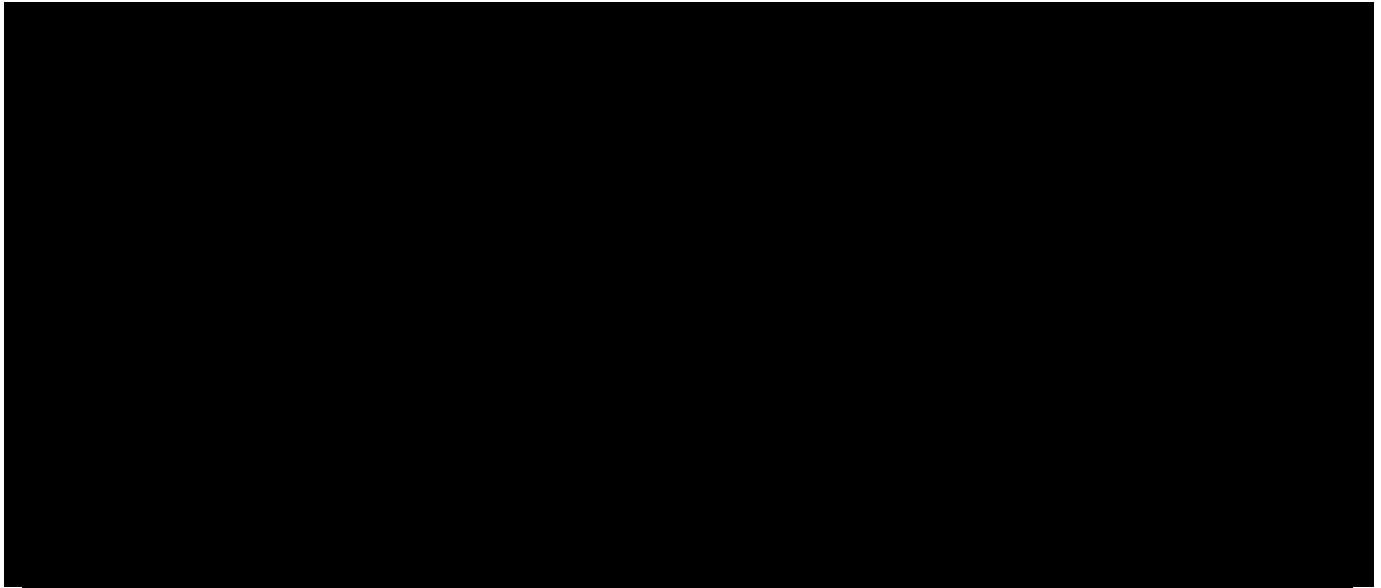
Following initial RFP for Due Diligence and Business intelligence providers, four suppliers, [REDACTED] were engaged, however it has been deemed that capability along with response was limited. [REDACTED] discounted due to capability.

With [REDACTED] remaining they were subsequently commissioned to provide ad-hoc bespoke Business Intelligence Due Diligence reporting targeting [REDACTED] following concerns raised about potential risk. The reports provided are high quality with actionable intelligence.

[REDACTED] have since been engaged to widen the potential suppliers however both confirmed this due diligence and targeted assignment reporting on single suppliers is out of scope.

Please see below a summary of procurement evaluation:

Figure 4: Procurement Evaluation of Due Diligence and Business Intelligence



With only [REDACTED] remaining, we wanted to ensure that they had full capability. They were directed to provide a proposal of approach against the 22 suppliers. This framework provided a comprehensive approach to complete assignments against the 22 suppliers but also provided further scope allowing risk identification within the wider supply chain (downstream sub-contractors) and new procurements. The approach outlined the mechanism needed to baseline information against the 9 inputs, as well as provide the ability to further interrogate and execute targeted assignments where further risk may be identified, as well as the ability to operate in multiple jurisdictions and obtain materially non-public information (MNPI).

[REDACTED] were then commissioned to provide a due diligence report as a proof-of-concept aligned to the required 9 inputs targeting [REDACTED]. [REDACTED] worked closely with DCCs SSM team throughout this stage to ensure they met the requirements and provided suggestions to maximise effectiveness of the data and the report. Again, this report was high quality and provided information that identified potential risk. The SSM team used this data and detail to execute tactical mitigation plans further justifying the need for Business Intelligence services.

Following market engagement, it has been identified that there is limited capability and appetite to execute Due Diligence and Business Intelligence Services. [REDACTED]

[REDACTED]

Opting for [REDACTED] means:

- ✓ Accelerated TPRM data input
- ✓ Pace to Identify risk
- ✓ Preferred supplier already identified

### Securing Value for Money

[REDACTED] k was built into the budget and annual business plan, which initially sat within Risk and Audit in CFO. This budget was secured specifically for Business Intelligence services and to support inputs for the third-party risk framework. As this will be a cross functional service, the budget will be transferred into Commercial who will be responsible for managing the output and budget of [REDACTED] within the SSM team.

Further budget has been secured as part of the Q1 budget lock to utilise for the below business intelligence services with [REDACTED]

- Non-volume commit contract with cost to baseline all 22 suppliers costing £ [REDACTED]
- [REDACTED] provided a discounted rate of [REDACTED] % for all reports commissioned in year 1
- Proof-of-Concept report was commissioned at [REDACTED] % discount to fixed price
- [REDACTED] provided a bespoke approach to publicly listed companies ensuring cost reductions from an average of £ [REDACTED] for a standard report to £ [REDACTED]
- [REDACTED] have moved to a fixed price cost for DCC as opposed to a banded cost which they provide for other customers, providing cost certainty.

Initial price was £ [REDACTED] and BAFO was £ [REDACTED] following negotiations and re-structure of the framework.

Table 16: Summary of Approach for Procurement of

SSM Third Party Risk	
Number of Initial invitations to tender	[REDACTED]
Number of Bids received	
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	



# Finance and

**Version: 1.0**

**Date: 31.07.2024**

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# 1. Finance and People Cost

## Summary

### What is this and why is it important?

The Finance, Enterprise PMO (EPMO), Enterprise IT, Legal and People teams are essential to enabling our business to deliver our obligations. As DCC evolves, so must the Finance and People functions.

The Finance function incorporates a broad group of teams to support the business, focusing on reporting, risk management, and automation to drive cost efficiency. The function now supports licence renewal and the ex-ante price control. It has also, in line with all mature organisations, developed an EPMO to oversee, assure, support, and report on delivery of DCC's Change Portfolio.

Our People team ensures DCC attracts (in line with industry benchmarks) and retains the right talent to deliver on our obligations, providing the central capability to support ongoing learning and development across the business. It drives the cultural change required to ensure we continue our maturity journey and ongoing levels of high performance.

### RY23/24 activities and costs

In RY23/24, total costs in the Finance and People function were £26.9m (a variance of £10.3m to the Ofgem baseline).

These variances are largely due to both a reorganisation of regulatory reporting for price control purposes, and cost increases to develop enhanced capability across business planning, legal and EPMO – all critical capabilities for successful implementation of an ex-ante Price Control regime.

Cash forecasting accuracy has significantly improved, achieving a 4% variance (i.e. 96% accuracy) to the Annual Business Plan and Charging Statement in RY23/24, a sizeable improvement vs RY22/23.

Following return to 'new normal' working practices we have had to undertake necessary renovations and improvements to our building estate, in order to make them safe and fit-for-purpose workspaces for our employees and visitors.

Investing in our workspaces, along with a greater focus on employee engagement and culture across DCC, have resulted in a significant improvement across key people metrics:

- Employee Net Promoter Score (NPS) increased from 0 in RY22/23 to +14 in RY23/24.
- Voluntary turnover reduced to industry standard levels from 16% to 13.5%.
- We achieved a 7% annual increase in the representation of BAME colleagues as part of our drive to create a more diverse and inclusive culture within DCC that aligns with industry standards and mirrors the diversity of our customers and consumers.
- In March 2024, DCC was named as a finalist in the 2024 UK & Ireland Inspiring Workplaces Awards<sup>1</sup>.

### Future activities and costs

Our overall forecast for internal costs in RY24/25 will decrease to £25.0m.

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the cost centre purpose and our resource and non-resource costs.

#### Cost Centre Variance by

The table below provides a breakdown of incurred and forecast costs in price control format i.e., mapping costs directly against the price control GLs.

**Table 1: Cost centre variance by**

Baseline			Ry23/24	Ry24/25	Ry25/26
<b>Total Finance and People</b>		<b>£m</b>	<b>16.635</b>	<b>13.707</b>	<b>0.540</b>
Payroll costs	PR	£m	9.258	6.693	-0.000
Non-payroll costs	NP	£m	0.401	0.267	0.000
Recruitment	RC	£m	0.064	-	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	2.135	2.096	-
Internal services	IS	£m	0.540	0.540	0.540
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	4.237	4.112	-
Office Sundry	OS	£m	-	-	-
<b>Incurred</b>			<b>Ry23/24</b>	<b>Ry24/25</b>	<b>Ry25/26</b>
<b>Total Finance and People</b>		<b>£m</b>	<b>26.890</b>	<b>24.959</b>	<b>24.081</b>
Payroll costs	PR	£m	14.584	14.311	15.532
Non-payroll costs	NP	£m	0.526	0.101	0.102
Recruitment	RC	£m	0.174	0.061	0.051
Accommodation	AC	£m	-	-	-
External services	ES	£m	5.775	4.709	2.561
Internal services	IS	£m	0.518	0.466	0.470
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	5.313	5.248	5.301
Office Sundry	OS	£m	-	0.063	0.065
<b>Variance</b>			<b>Ry23/24</b>	<b>Ry24/25</b>	<b>Ry25/26</b>
<b>Total Finance and People</b>		<b>£m</b>	<b>10.255</b>	<b>11.252</b>	<b>23.541</b>
Payroll costs	PR	£m	5.326	7.618	15.532
Non-payroll costs	NP	£m	0.125	-0.166	0.102
Recruitment	RC	£m	0.110	0.061	0.051
Accommodation	AC	£m	-	-	-
External services	ES	£m	3.640	2.613	2.561
Internal services	IS	£m	-0.022	-0.074	-0.070



Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	1.076	1.137	5.301
Office Sundry	OS	£m	-	0.063	0.065

### Cost centre variance by Sub-

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

**Table 2: Cost centre variance by sub-**

Baseline			RY23/24	RY24/25	RY25/26
<b>Finance and People Payroll Costs</b>		<b>£m</b>	<b>9.258</b>	<b>6.693</b>	<b>-</b>
Commercial Finance		£m	1.714	1.714	-
Enterprise IT		£m	1.504	0.924	-
EPMO		£m	1.790	-	-
Finance Office		£m	0.512	0.513	-
Finance Transformation		£m	1.030	0.837	-
Financial Reporting		£m	0.882	0.882	-
Legal		£m	0.812	0.812	-
People Team		£m	0.034	0.031	-
Regulatory Finance and Pricing		£m	0.233	0.233	-
Risk and Audit		£m	0.747	0.747	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Finance and People Payroll Costs</b>			<b>14.584</b>	<b>14.311</b>	<b>15.532</b>
Commercial Finance		£m	1.371	1.585	1.684
Enterprise IT		£m	2.276	2.054	2.163
EPMO		£m	2.088	2.450	3.075
Finance Office		£m	0.555	0.565	0.600
Finance Transformation		£m	0.517	0.617	0.437
Financial Reporting		£m	0.976	1.047	1.112
Legal		£m	0.996	0.969	1.164
People Team		£m	2.306	2.059	2.175
People - Internal Communications		£m	0.633	0.678	0.704
People - Workplace Experience		£m	0.400	0.350	0.369
Regulatory Finance and Pricing		£m	0.168	0.158	0.190
Risk and Audit		£m	0.874	0.997	1.026
Business Planning & FP&A		£m	0.822	0.783	0.832
Business Accuracy Programme Resource		£m	0.602	-	-
Variance			RY23/24	RY24/25	RY25/26
<b>Finance and People Payroll Costs</b>			<b>5.326</b>	<b>7.619</b>	<b>15.532</b>

Commercial Finance	£m	-0.343	-0.129	1.684
Enterprise IT	£m	0.772	1.130	2.163
EPMO	£m	0.298	2.450	3.075
Finance Office	£m	0.043	0.053	0.600
Finance Transformation	£m	-0.513	-0.220	0.437
Financial Reporting	£m	0.094	0.165	1.112
Legal	£m	0.184	0.157	1.164
People Team 0	£m	2.272	2.028	2.175
People - Internal Communications	£m	0.633	0.678	0.704
People - Workplace Experience	£m	0.400	0.350	0.369
Regulatory Finance and Pricing 0	£m	-0.065	-0.075	0.190
Risk and Audit 0	£m	0.127	0.250	1.026
Business Planning & FP&A	£m	0.822	0.783	0.832
Business Accuracy Programme Resource	£m	0.602	-	-

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and Structure

### 1.2.1. Purpose and Scope

When the Chief Financial Officer (CFO) function was widened in RY22/23 to incorporate a broader group of teams, its purpose was reviewed and refreshed. This revised purpose, which was retained for RY23/24, reflects the CFO key functions to better support our business to deliver its core responsibility of a growing, secure, reliable, and stable network.

The Finance and Legal teams at Smart DCC are essential due to three qualities:

1. **Define** – We define and evolve DCC 's Lifecycle Management approach, designed with clear accountabilities, optimised by technology, and continuous improvement.
2. **Empower** – DCC's data, systems, processes, and governance will empower the organisation, teams, and individuals, removing barriers and simplifying how we get things done.
3. **Govern** – We track performance of the business, as well as design and enforce the Governance Framework.

#### People

For regulatory reporting purposes, the People team, which is responsible for all aspects of Human Resources activity within DCC, is also included within the return for the Finance RIGs cost centre. In RY23/24, the People team has made considerable progress executing against our three Strategic Pillars:

1. **Workforce Force and Capability** – Ensuring DCC has the resources it needs to deliver its mandated activity.
2. **Culture Transformation** – Creating an environment where people enjoy working and can be at their best.
3. **Employee Value Proposition (EVP)** - Defining the unique benefits that make people want to join and stay working for DCC.

Progress against these key areas outlined in sections 1.3.5, 1.3.8 and 1.3.9

## 1.2.2. Structure

The CFO function team make up for RY22/23 and RY23/24 is set out in figures 1 and 2 below. We explain the team roles and responsibilities through the structures below for RY23/24.

### CFO Team Structure

The CFO team at Smart DCC underwent significant changes to enhance financial planning and support as the organisation navigates through major transformations.

The DCC has been experiencing unprecedented organisational change, ranging from functional restructures to business process modifications. In RY2023/24, new roles were introduced in preparation for Relicensing and the ex-ante Price Control. The introduction of the Enterprise Portfolio Management Office (EPMO) aims to improve planning and resource control at the organisational level. It is the norm for companies of the size and complexity of DCC to have dedicated EPMO resources, and we are looking to align with best practice.

These changes and improvement programmes impact a wide cross-section of DCC staff and require meticulous planning, management, and communication to deliver the programmes goals and improvements. At the time of these changes, organisational stress levels were high, contributing to low staff morale and increased staff turnover, which in turn led to higher costs and potential reputational damage.

The new roles of Director of Risk & Assurance, Director of Planning & Portfolio, and General Counsel have been introduced to strengthen Smart DCC's risk management, project planning, and legal oversight, ensuring better alignment with the financial strategic goals and improved efficiency.

Figure 1: Cost centre organisational structure at start of

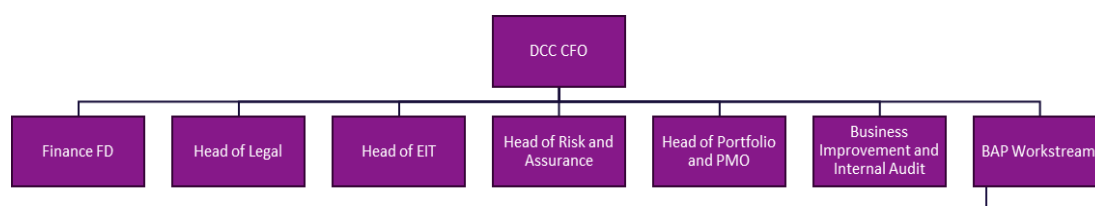
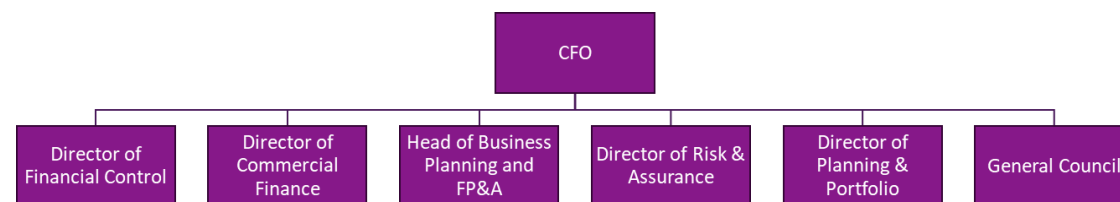


Figure 2: Finance cost centre organisational structure end of



### People Team

In 2023, following a reorganisation of the Corporate Affairs function and the departure of the Corporate Affairs Director (ExCo position), the Internal Communications Team was transferred to the People Team. Overall, this change represents a reduction in headcount with no backfill of the Corporate Affairs Director having been made and headcount in the internal communications team remaining flat.

The Transformation Change Director is a fixed term role and transferred from the central transformation team when this function was disbanded in January 2023 following the departure of [REDACTED] (Chief Transformation Officer) from the executive. This executive role has not been backfilled and activity absorbed within the CPO remit. The Transformation Change Director continues to focus on organisational effectiveness and change programmes including the exploration of a more flexible, agile and cost-efficient resourcing model which will drive greater operational and cost efficiencies and prepare the business for a move to an ex-ante.

Figure 3: People cost centre organisational structure end of



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

Table 3: Sub-teams within the Finance and People

Sub-team RY22/23	Sub team RY23/24	Description
Commercial Finance	Commercial Finance	Responsible for producing financial plans and forecasts, business partnering to the organisation, driving cost efficiencies, evaluating investment decisions, and month end reporting.
Enterprise IT	Enterprise IT	Responsible for designing, operating, and governing all aspects of the Internal DCC technology and communications infrastructure.
Portfolio and PMO	Enterprise Portfolio Management Office (EPMO)	Responsible for enterprise-wide activity planning and process improvement.
Finance Office	Finance Office	Responsible for the costs of the CFO, who is a member of the DCC Board, and the finance team PA.
Finance Transformation and Business Operations	Finance Transformation	Responsible for delivering the Business Accuracy programme, driving value in the creation of more robust systems and processes. These, in turn, create more meaningful insight and control.
Regulatory Finance and Pricing	Regulatory Finance and Pricing	Responsible for the preparation and publication of the Charging Statements; and charging policy interactions with Ofgem and the Department for Energy, and Net Zero (DESNZ).
Legal	Legal	Responsible for all legal matters within DCC, including those referred to external counsel.
People Team	People Team	Responsible for Employee experience, people policy, process and administration, employee relations, mandatory training, core and leadership skills development, culture, recruitment, talent and succession planning, reward management, organisational design and development, internal communications and workplace experience and facilities management.
Regulatory Finance and Pricing	Financial Control and Reporting	Responsible for producing the Statutory Accounts, master data set up, Price Control data, purchasing and billing operations, and cash management.
Business Improvement and Internal Audit / Risk and Assurance	Risk and Audit	Responsible for delivering risk and policy-based internal audits, tracking audit recommendations to completion, managing enterprise and functional risk, performing regulatory compliance, and ensuring health, safety, and environmental compliance.
Commercial Finance	Business Planning & FP&A	Responsible for leading on: Annual Business Planning and quarterly forecasting cycles; financial performance reporting and analysis to support strategic decision-making and ensure fiscal efficiency.

### 1.3. Cost centre variances

The table below provides a breakdown of incurred and forecast costs in Price Control format i.e. mapping costs directly against the Price Control General Ledger codes (GLs). Payroll costs are justified within the next section on resource costs. External and IT Services are explained in the non-resource section.

**Table 4: Variance from the RIGs by**

	Total Finance and People			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Finance and People</b>		<b>£m</b>	<b>16.635</b>	<b>13.707</b>	<b>0.540</b>
<b>Total Incurred</b>	<b>Total Finance and People</b>		<b>£m</b>	<b>26.890</b>	<b>24.959</b>	<b>24.081</b>
<b>Total Variance</b>	<b>Total Finance and People</b>		<b>£m</b>	<b>10.255</b>	<b>11.252</b>	<b>23.541</b>
	Payroll costs	PR	£m	5.326	7.618	15.532
	Non-payroll costs	NP	£m	0.125	-0.166	0.102
	Recruitment	RC	£m	0.110	0.061	0.051
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	3.640	2.613	2.561
	Internal services	IS	£m	-0.022	-0.074	-0.070
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	1.076	1.137	5.301
	Office Sundry	OS	£m	-	0.063	0.065

#### Payroll costs

The overall payroll costs variance is £5.326 million in RY23/24 across a total of eight teams. This is largely driven by zero baselines set for the People team in the RY22/23 Price Control decision. Accordingly, this year we have explained the material variances and each team's role, purpose, and activities.

#### Variance by Sub-

The table below outlines the variances by sub-team, where we have grouped the people teams together for ease. The following sections describe the reasons for the variances.

**Table 5: Variance by sub-**

Variance			RY23/24	RY24/25	RY25/26
Finance and People Payroll Costs			5.326	7.619	15.532
Commercial Finance		£m	-0.343	-0.129	1.684
Enterprise IT		£m	0.772	1.130	2.163
EPMO		£m	0.298	2.450	3.075
Finance Office		£m	0.043	0.053	0.600
Finance Transformation		£m	-0.513	-0.220	0.437
Financial Reporting		£m	0.094	0.165	1.112
Legal		£m	0.184	0.157	1.164

People Team	0	£m	2.272	2.028	2.175
People - Internal Communications		£m	0.633	0.678	0.704
People - Workplace Experience		£m	0.400	0.350	0.369
Regulatory Finance and Pricing	0	£m	-0.065	-0.075	0.190
Risk and Audit	0	£m	0.127	0.250	1.026
Business Planning & FP&A		£m	0.822	0.783	0.832
Business Accuracy Programme Resource		£m	0.602	-	-

## 1.4. Drivers for Variance – Resource

### 1.4.1. Enterprise IT

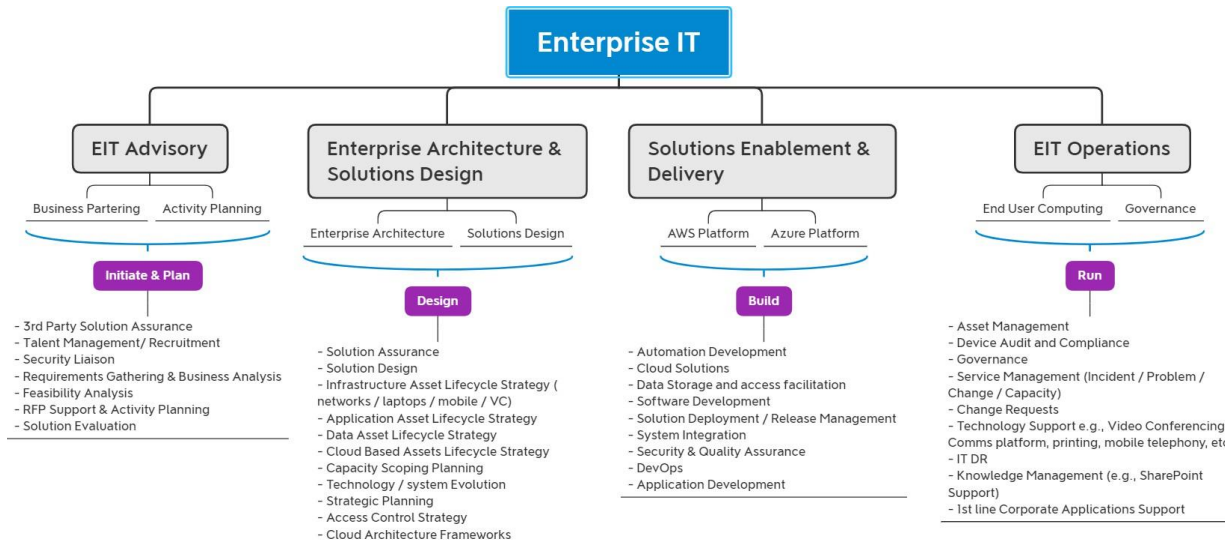
Enterprise IT (EIT) delivers the technology and data services that support the internal DCC business functions. It is not responsible for the technology that supports the Smart Metering network.

EIT manages the budget for most of the hosting, licensing, and support services for Enterprise applications and services used by the business functions (except those supplied by Capita), and the asset management of hardware and software consumed by the business. Other responsibilities include managing the relationship with Capita and other suppliers for the delivery of core EIT technology services, and other services hosted by Capita.

The team's roles and responsibilities are as follows:

- Managing the relationship with suppliers for the delivery of core EIT technology services.
- Advising transformation projects and enterprise projects to ensure we have a defined strategy for data and application management, minimising shadow IT, and serving as an enabler for integration whilst maintaining our security posture.
- Managing the cloud infrastructure that supports numerous business applications such as the SOC (Security Operations Centre) & TOC (Technical Operations Centre) systems, the Interoperability Checker, and, more recently, Enduring Change of Supplier (ECoS) and Switching. We manage architecture, design, delivery, and support for live and mandatory services for DCC internal business functions.
- Developing and adopting frameworks and controls for the delivery of Enterprise solutions, for both off-the-shelf and internally developed systems.
- Promoting and developing internal applications that support automation or process improvement, utilising Microsoft services already licensed, and specialising in Power Platform.
- Providing the End User Computing solutions for all users (employees, contractors, consultants, and external service providers) including desktop, network, mobile telephony, and internal office solutions such as printing, desk and room booking services, and so on.
- Managing governance of our assets, both physical and logical – including device management, software licensing, user accounts, and so on.

Figure 4: Enterprise IT organisation



### Activities driving change in resource in

Our Solutions Enablement and Delivery team supports the delivery of new projects to support operational efficiency improvements where paper-based processes can be automated. As we seek to make best use of the Microsoft licensing already procured, thereby delivering value for money for our customers, one example is our use of Microsoft Power Platform (MPP). MPP is a collection of low-code development tools that allows users to build custom business applications, automate workflows, and analyse data. The Enterprise IT team deliver the more complex applications required by the business, or productionise applications developed by employees.

We recruited two full-time contractors to flexibly support the significant amount of automation that had been started on key areas across multiple functions within the business, such as:

- Authority To Recruit (ATR) and Authority To Extend (ATE) processes – approval workflows for the People Team to streamline the onboarding of employees or extend contracts.
- Subject Access Requests – a request system for the Information Governance team in Security, ensuring the required detail is captured, and a log of activities and target dates is managed.
- IT Asset management solution – this manages the ownership of devices for improved governance, but also support the “leaver process” to ensure all devices are returned.
- DCC Timesheet system – allowing improved time recording of project and programme activities, with centralised reporting for the ePMO and Finance functions.
- “Near Miss Reporting” tool – allowing the Health and Safety (H&S) team to capture potential risks across our sites.
- Future requests include small systems for Comms Hub ordering, Visitor access requests, H&S requests, In-life CR requests for Design and Assurance CTO, and so on.

Having delivered these systems, we have proved the cost-effective delivery and speedy construction of small systems through MPP is an extremely effective method of meeting the needs of the business. The alternative approach would be to source off-the-shelf tools from multiple vendors, increasing our vendor risk, and increasing the size and diversity of our application portfolio. Therefore, we converted the two contractor roles into permanent roles during 2024 to continue to increase the value of this platform and reduce costs.

The team also manages the operation and security of our cloud solution, Amazon Web Services (AWS).

- To increase our cyber resilience, we recruited two contractors to patch and update our cloud hosted servers and mitigate risks to our range of enterprise solutions.

- We also recruited a "Head of" role for this team of six specialist architects and Cloud Engineers, providing greater coordination and management of the team, who had all historically reported into the Enterprise IT Director.

#### **Activities driving change in resource in RY24/25 and**

The original plan was to reduce headcount in the Cloud Team during RY24/25 as the volume of infrastructure change was due to decrease. However, with the addition of the ECos tooling, growth in the Security platform, and Enterprise Data Analytic Model (EDAM) to CEDAR migration projects, this was not practical.

Neither EDAM nor CEDAR are part of the Smart Meter network but consume data from it to provide mandatory reporting for our regulators and customers. EDAM was originally specified to manage the volume of data from only 1-5 million smart meters; however, the number of devices has grown to 30m+. Whilst we have managed to maintain the performance of EDAM, we recognised the need to meet future demand and have therefore specified a new platform (CEDAR) that provides the same reporting services but is capable of managing 50m+ devices securely and with built-in resilience.

The volume of data consumed onto AWS has increased as the Smart Meter network grows due to the addition of additional meters, and more data-points are generated through the number of transactions occurring on the network such as the move to MHHS where devices are reporting more frequently. The level of support and systems that utilise this data becomes more critical we have increased the size of the team to support and manage the availability of the systems.

During RY23/24, we have had to increase our levels of management structure as the team has grown, and as we reduce our reliance on Capita to provide services. Through these moves internally or to other third parties, we have had to manage increased volumes of administration and governance to ensure that new services and suppliers are correctly managed. The growth of internal solutions development was not anticipated; however, MPP development of small applications has been cost effective compared to sourcing and delivering external solutions into the Enterprise space.

In terms of team growth in planned for RY25/26, we had anticipated a need to grow the Enterprise Architecture and Solutions team to support any licence renewal projects, where existing applications and services may have required changes and development to meet the changing requirements of the business. We expect minor growth in RY24/25 and plan to recruit two new FTEs ready for RY25/26. These additional roles will be:

- Digital and Technology Solutions Degree Apprentice – This person will support numerous activities, primarily in the Operations, Governance and Delivery space.
- Enterprise Architect – This person leads the Architectural conversation around business platforms and the guard-rails for delivering projects correctly into this space. With increased requirement for new internal systems in Commercial, Finance, Operations, and Risk plus Enterprise procurements such as the Service Desk it is important that we represent a central, cohesive understanding of DCC's platforms, data, and security.

#### **1.4.2. Enterprise Portfolio Management Office**

In the second half of RY23/24, we created a single efficient entity, the Enterprise Portfolio Management Office (EPMO), to oversee, assure, support, and report on delivery of DCC's Change Portfolio, merging three existing teams – Portfolio Office, Programme Management Office, and Enterprise Planning.

We created the EPMO in November 2023 which then led to a people consultation process in March 2024. Following recruitment of people with the right skills, the team will be fully mobilised by December 2024.

The EPMO will drive increased predictability, transparency and standardisation that translate in real terms to cost efficiency, delivery effectiveness, and greater outcome certainty.

An additional benefit of more efficiency and efficacy is a reduction of 1 FTE. Headcount is forecast to remain static for the whole EPMO team.

#### **Activities driving change in resource in**

In RY23/24, there were three separate teams. The focus for RY23/24 was on merging the distinct teams into a cohesive unit and establishing the foundational processes and tools for the EPMO.



The restructuring was essential to consolidate functions and enhance efficiency. The EPMO roles are responsible for developing and maintaining the Change Delivery Framework, providing independent assurance, supporting programme directors, and managing the portfolio of change across DCC. This change fills gaps in strategic alignment, resource management, and governance, ensuring value for money and better customer outcomes.

### Activities driving change in resource in RY24/25 and

The increase in variance for this year is driven by full mobilisation of the EPMO team. This includes ongoing staffing costs, comprehensive training programmes, and the implementation of new enterprise-wide methodologies and tools like PRINCE2 and Managing Successful Programmes frameworks. The establishment of enhanced Portfolio Delivery Assurance and Performance Reporting functions also contributes to the higher costs, ensuring robust governance and transparency across all projects.

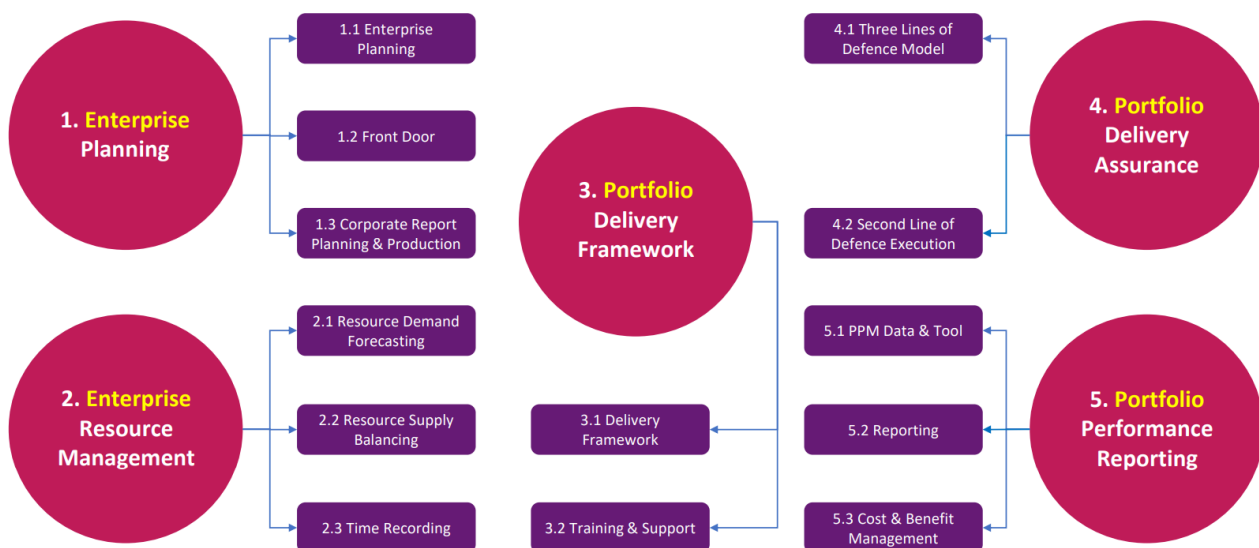
We expect a reduction in variance in RY25/26 compared to the previous year because of the stabilisation of the EPMO's operations. While there are still costs associated with maintaining the high standards of project delivery and governance established in the previous year, the efficiencies gained from the streamlined processes and better resource management result in lower incremental costs.

These strategic investments are anticipated to deliver substantial long-term benefits, including improved project delivery timelines, enhanced resource utilisation, and better alignment with DCC's strategic objectives, ultimately ensuring greater value for money and improved customer outcomes.

The EPMO will provide the business with five core services as described and depicted below:

1. Enterprise Planning – Providing the business with a strategically-aligned, appropriately prioritised, and appropriately sequenced Enterprise Plan that reflects all outcomes and change activities needing to be delivered over the next three years. The Enterprise Plan is the 3-year forward view of all non-BAU activities needing to be delivered (in life change, projects and programmes, and commercial pipeline).
2. Enterprise Resource Management – A forward-looking, mass balanced, workforce management plan, with supporting time recording tool capability, that enables activities in the Enterprise Plan to be successfully delivered by having the right number of people with the right skills on the park at the right time.
3. Portfolio Delivery Framework – A new PRINCE2 and Managing Successful Programmes-based Delivery Framework that all projects and programmes follow to ensure well-governed delivery.
4. Portfolio Delivery Assurance – An effective three lines of defence assurance model to ensure that projects and programmes are successfully delivered to time, cost, and quality.
5. Portfolio Performance Reporting – Management of all data relating to projects and programmes in a fit-for-purpose PPM tool and associated monthly reporting of performance versus the plan.

Figure 5: Core services of the



The five core services will drive increased predictability, transparency, and standardisation that translate in real terms to cost efficiency, delivery effectiveness and greater outcome certainty.

The figure below outlines the five core services provided by the EPMO team and highlights the expected changes and benefits each service will bring. It shows how these five core services will drive improvements in predictability, transparency, standardisation, cost efficiency, delivery effectiveness, and outcome certainty. Each core service contributes to multiple benefits, ensuring a more integrated and efficient approach to managing the change portfolio.

**Figure 6: Changes brought about through the**

Core Services	What Will Change						
		Predictability	Transparency	Standardisation	Cost Efficiency	Delivery Effectiveness	Outcome Certainty
<b>1. Enterprise Planning</b>	<ul style="list-style-type: none"> <li>Single source of truth 3-year enterprise plan</li> <li>Portfolio interdependencies understood and managed</li> <li>Robust pipeline and Front Door management</li> <li>Effective change control management</li> </ul>	✓	✓	✓	✓	✓	✓
<b>2. Enterprise Resource Management</b>	<ul style="list-style-type: none"> <li>3-year cross-functional resource demand forecast</li> <li>Capacity plan following demand and supply balancing</li> <li>Time recording for resource and cost management</li> <li>Effective planning of flexible contingent resource</li> </ul>		✓	✓	✓	✓	✓
<b>3. Portfolio Delivery Framework</b>	<ul style="list-style-type: none"> <li>Single delivery methodology used enterprise-wide</li> <li>Single consistent framework used for governance</li> <li>Defined delivery standards</li> <li>Supporting guidance, templates and training</li> </ul>	✓		✓		✓	✓
<b>4. Portfolio Delivery Assurance</b>	<ul style="list-style-type: none"> <li>Defined 3 Lines of Defence Model</li> <li>Second Line of Defence undertaken monthly by EPMO</li> <li>Improved risk identification and mitigation</li> <li>Increased delivery support</li> </ul>		✓			✓	✓
<b>5. Portfolio Performance Reporting</b>	<ul style="list-style-type: none"> <li>Single source of truth reporting on health of the portfolio</li> <li>Provision of insights that facilitate decision making</li> <li>Single PPM tool housing data for all portfolio initiatives</li> <li>Standardised cost and benefit management</li> </ul>		✓	✓			

### 1.4.3. Financial Reporting

The team is responsible for Governance and Control pillars across both Financial and Regulatory Reporting.

Key activities delivered by the team include

- Core transactional accounting;
- Data processing and governance;
- External Reporting;
- Treasury and Financing;
- Regulatory Finance; and
- Transformation of Data & Reporting

The team provide critical oversight of DCC Financial reporting systems (SAP ERP and SAP Business Planning and Consolidation software (BPC)). It ensures that these systems are maintained and modified as per the needs of the business and any regulatory requirements, introducing systems to automate finance processes, and refining systems or processes to improve performance.

In RY23/34, The Financial Control team have enhanced cost efficiency, particularly through the External Contract Gain Share mechanism. This secured substantial savings from renegotiated interest rates and financing arrangements.

#### Activities driving change in resource in RY24/25 and

Reporting to the Director of Financial Control, the Senior Treasury Manager is a newly created position to develop a new Treasury function for DCC. The role will have oversight of DCC's banking arrangements, within month cash forecasting and monitoring, working with cross functional teams to ensure effective cash reporting, supporting the drawdown of existing and facilitation of new long-term programme financing such as the 4G roll-out and developing robust frameworks and controls to meet financial and regulatory requirements.

We have hired a Senior Treasury Manager in the second half of RY23/24 and are planning to hire an additional FTE for RY24/25 to help build up the team to create a robust Treasury function. The addition of these two full-time

employees will provide the necessary resources to build a high-performing team that can handle the increasing demands and complexities of DCC's new financial landscape. The Treasury function supports the regulatory compliance and strategic objectives of DCC. Ofgem is expecting us to demonstrate efficient spend of funds and a robust Treasury team is essential to navigate these requirements.

The new Treasury function is essential for five reasons:

1. Enhanced oversight and control of DCC's financial operations.
2. Ensuring stringent oversight of banking arrangements and cash flow management.
3. Improving within-month cash forecasting and monitoring, which is crucial for maintaining liquidity and optimising fund usage.
4. Effective cash reporting and financial control, which requires close collaboration with various departments that a multiple Treasury team members will need to manage a seamless cross-functional coordination.
5. Managing the drawdown of existing financing and the facilitation of new long-term programme financing mandated to us by DESNZ and Ofgem such as 4G CH&N project.

Effective cash forecasting for the upcoming ex-ante regulatory regime is vital, due to the continued growth of the smart metering network, which has scaled to over 30 million meters from 1 million in 2019 and now handles 2.1 billion messages per month. The Treasury team will help in managing the financial aspects of this ex-ante financial transformation, ensuring that funds are efficiently allocated, and financial risks are mitigated.

In the summer of 2023, Ofgem commenced a consultation considering potential modifications to the arrangements for the Over-Recovery of Revenue. Following the conclusion of Ofgem's review in 2024, a new requirement has been introduced to return cumulative over-recovery of revenue prior to the end of the licence term or any additional term thereafter.

The new Treasury function is supporting DCC's 3 phase plan to deliver the new requirements whilst balancing its need to maintain sufficient cash resources. This will ensure that DCC's operational working capital needs are not compromised.

Phase 1 of DCC's plan was to take the necessary steps to return cash levels back within its healthy range by the end of RY23/24. The following actions have ensured that this has been achieved:

- New treasury function introduced – required due to complexity of DCC's operations, its move to internally sourced financing facilities and the need to deliver DCC's 3 phase Cash and Over-recovery of Revenue project. The role was filled at the start of 2024.
- Improved accuracy of spend versus budget – DCC's investment in initiatives such as the Business Accuracy programme (BAP) has improved the accuracy of spend versus budget. This enabled a significant reduction in DCC's customer cash holdings and supports DCC future operations.
- DCC ended RY23/24 within its cash healthy range - c.£[REDACTED]m of cash was returned to customers and the projected brought forward cumulative correction factor at the start of RY24/25 is £[REDACTED]m.

By completing phase 1, DCC has:

- In the last two regulatory years, DCC has reduced customer cash held from [REDACTED]m to £[REDACTED]m; and
- By the end of RY23/24, cash held by DCC was within its planned healthy range.

In RY24/25, DCC will now commence with the Phase 2 of the plan to evaluate alternative funding structures to reduce the level of over-recovered revenue ahead potentially further by the end of the current DCC licence.

Phase 3 of the plan then details DCC's plan for the transition to the next Licence period.

#### 1.4.4. Legal

Our in-house legal team provides counsel on a wide array of legal matters that the business encounters. Some of the most critical areas include:

- **Transactional - Third Party Contracts:** DCC has contracts worth £5.8 billion, with two-thirds of DCC's cost base associated with third-party contracts. The licence requirements necessitate a unique business model, requiring DCC to deliver mandatory service entirely through third parties. This aspect has gained even more significance recently due to the volume of activity related to the expiration of government-inherited

contracts. Over the next three years, approximately 150 Tier 1 to Tier 3 Contract Negotiations are anticipated, including significant ongoing deals like FSM, DSP, PKI, and Future Connectivity, which are essential for delivering our Mandatory Business.

- **Regulatory:** Operating in a highly regulated environment, the in-house team handles a variety of issues, including those associated with Licence Renewal, Price Control (Ex Ante and Ex Post), DCC's licence requirements when procuring Fundamental Service Capability and Relevant Service Capability, DCC's independence requirements from its shareholder Capita, regulatory constraints governing innovation and reuse, Data Protection, and Competition law as well as the broader Energy Regulation.
- **Effectiveness and Efficiency:** The legal team is also implementing a programme aimed at enhancing its effectiveness and efficiency to meet the growing legal demand without incurring additional costs. This includes initiatives such as:
  - Panel Refresh: Refreshing our Panel from five to two, where the expected benefits include:
  - Establishing a more strategic partnership where each firm will be expected to invest in DCC and Implementing a triage and right-sourcing approach to work.
- **Becoming a more data-driven legal team:** This will enable us to provide key stakeholders (CEO, CFO, COO, etc.) with an overview of the legal team's activities but also recurring legal, regulatory, & business issues – which will facilitate conversation on what actions to take to help drive the business forward.
- **New Master Service Agreement:** The rollout of a new, more suitable, MSA, with a more balanced approach to risk, that can be customized to the variety of managed service deals that DCC engages in.
- **Contracting Approach:** The design and implementation of a T-shaped, systematic, and more integrated approach to contracting for all other contracts that DCC is involved in.
- **Open Learning Sessions:** Conducting open learning sessions on key business issues such as mobilisation, holding suppliers accountable, and managing supplier counter-party risk.
- **Business Partnering Relationships:** Developing deeper business partnering relationships to ensure that the legal team's efforts align with the strategic needs of its stakeholders and the business.

#### Activities driving change in resource in

The legal team, consists of seven members:

- General Counsel.
- Interim Head of Legal – who we are looking to make permanent.
- Four Senior Legal Counsels.
- Paralegal.

We appointed a General Counsel who joined DCC in April 2023. We felt it necessary for the Board and Exco of DCC to have a business partner of sufficient experience given the significant change the business is going through from:

- Change in regulatory regime (move from Ex Post to Ex Ante).
- Corporate and governance structure (licence renewal, and potential exit from Capita).
- Sheer number of complex renewals (including DSP and FSM).

We also wanted the General Counsel to help professionalise the legal team so that it was fit for purpose for the evolving needs of the complex operating business that DCC has become. The General Counsel joined initially as a contractor in April 2023 and became permanent effective 1 Feb 2024.

The Head of Legal left DCC mid-October 2023 and we have replaced him with an interim Head of Legal, who we plan to make permanent. He will deputise for the General Counsel, work on professionalising the legal team and also partnering on the DCC most complex issues and contracts. In the reporting year three senior legal counsels have left the organisation. In response we have:

- Promoted two Legal Counsel to Senior Legal Counsel.
- Hired two other Senior Legal Counsel as well as a paralegal.

We have no intention of growing the team further or changing the mix of seniority.

We created the General Counsel role to reflect the increased workload and level of expertise required to support the wide array of legal matters outlined above. Our RY23/24 variance reflects the increased seniority within our team compared to the prior year and reduction in vacancies compared to RY22/23.

### **Activities driving change in resource in RY24/25 and**

We expect to maintain current levels of headcount in RY24/25 at the same incurred cost. This includes some vacancies we have not yet been able to completely fill. However this appears in the table as a variance of £0.15m, due to the comparatively lower baseline set in the final decision for RY22/23 for the RY24/25 year. For the reasons set out in the prior section, we expect our workload to at least be maintained and potentially increase as the number of large and complex issues and contracts grows as old third party contracts expire, and scopes of work evolve to reflect our latest obligations.

For RY25/26 we anticipate a moderate growth in payroll due to having a full year with our vacancies filled to reach full resourcing levels. As one illustrative example, we appointed a permanent Head of Legal in July 2024, so by RY25/26 we will have a full year of the costs incurred for this individual.

### **1.4.5. People Team**

The People team provides strategic and operational HR support to ExCo and functional leadership teams. This includes organisational design and development, executing DCC and functional people plans, defining and delivering capability requirements, and ensuring DCC attracts, engages, and retains necessary skills and experience. Key activities are talent acquisition, employee engagement, reward management, and maintaining a compelling employee value proposition and experience. Capita does not support DCC in these activities.

Due to Ofgem's concerns about the number of roles in the People team and the rationale for expansion, we have detailed each area's activities and responsibilities. Since last year's Annual Business Plan, the People team has reduced the resource forecast for R24/25, from 30 FTE R23/24 and decreased it by 3 FTE for R24/25 and planned further reductions by year-end.

#### **Key achievements for**

- Tenure has increased from 1.7 years in 2019 to 3.5 years in 2024 for permanent employees.
- Attrition has reduced from 21% in 2019 to 13.5% in Mar 2024.
- Our Your Voice survey has:
  - Seen a consistent 86% participation rate.
  - Our Engagement scores have notably climbed from -4 in October 2023 to +14 in March 2024.
  - Our Blended Positivity Score (BPS), calculated from an average of five questions, highlights strong positivity in colleagues' sense of belonging (74%) and recommendations of DCC as a great place to work (74%).
  - We have seen a significant improvement in 'listening and taking action', which has surged by an impressive 11%.

#### **Reward**

The Reward function in Smart DCC consists of two roles which have been in place since 2020 - a Head of Reward supported by a Reward Specialist.

All elements of compensation are managed independently from Capita by the DCC Reward Team. Activities include the annual salary review and bonus process, job evaluation, and mandatory reporting processes.

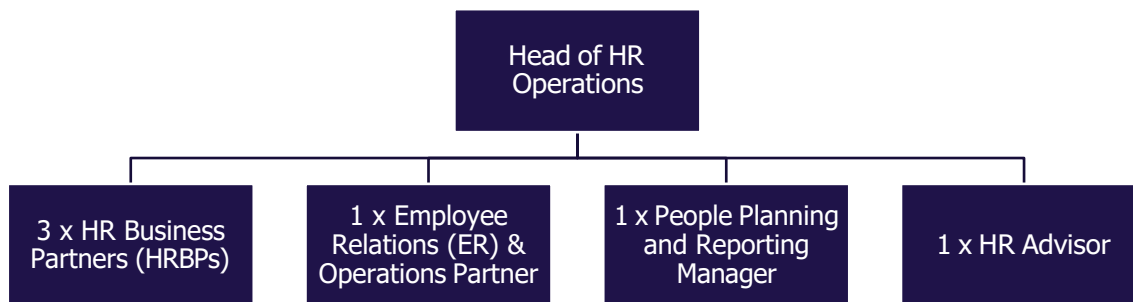
Capita own the responsibility for benefits provision and liaison with providers including the company pension. The DCC reward team are the interface with the Capita Group Reward team and resolution of any employee issues.

If the DCC Reward function did not exist within DCC, we would have to employ external consultants to support the management of the compensation structure of DCC colleagues as undertaken previously with Korn Ferry. We have avoided significant resource costs by not using external reward consultancies.

## HR Operations and Business

HRBP is a strategic role that is focused on ensuring the alignment of all HR practices with business goals to enhance performance and drive better outcomes.

**Figure 7: HR Operations organisational**



This team delivered the following over the past year:

- Strategic Planning and alignment – Functional People Plans.
- Workforce and resourcing strategies – Headcount management and resourcing efficiency.
- Talent Management – Internal progression and manpower planning.
- Change management. – Lead the transition of organisation design and change programmes.
- Performance Management – Facilitated performance management processes.
- Leadership/ LM Capability – Provided first line support coaching and developing of leaders.
- Compliance and risk management – - Ensured HR Policies and practices comply with legal and company requirements.
- HR Analytics and reporting – Used data and analytics to inform decision making and measure impact of HR initiatives.
- Employee relations – Fostered a positive work environment, deal with conflict and address employee concerns through defined ER practices.
- Engagement communication – Improved the culture and employee satisfaction through monitoring and acting on feedback from the organisation (workforce).
- Continuous improvement HR Systems and Processes – Defined clear and efficient people processes and ensured compliance and adherence by deploying regular monitoring and governance strategies.

The majority of HR services provided by Capita and excludes the above, is listed below:

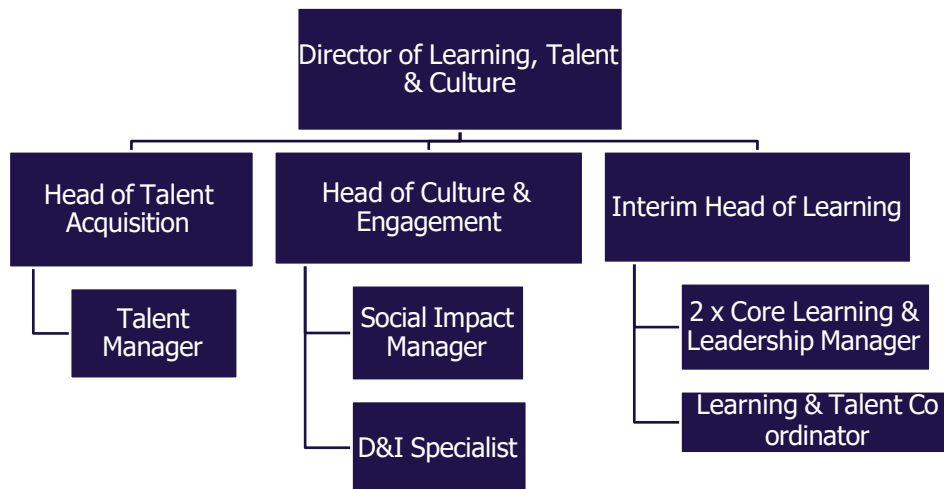
1. Maintenance of Workday (WD) system and records.
2. Peoplehub self-service tool
3. First line people support provided through Peoplehub services.
4. Payroll services.

## Culture Talent and

The organisation chart below shows the structure of the Culture, Talent and Learning sub-team at the end of RY23/24.



Figure 8: Learning, Talent &amp; Culture organisational



Our growth in RY23/24 is driven by strategic recruitment in key roles:

While DCC utilises Capita's Learning Academy for certain soft skills training accessible to all colleagues, there is minimal interaction with Capita Learning & Development beyond this due to differing needs and focus areas. Some of these areas are detailed below:

- **Embedding and Driving New Values and Behaviours:** DCC has distinct values and behaviours that are different from Capita's, necessitating unique initiatives to embed and drive these throughout the organisation. The L&D team at DCC independently develops and implements these programs because Capita's resources do not align with DCC's specific requirements.
- **Leadership Development:** DCC introduced a Leadership Programme aimed at developing leaders in accordance with its unique values and behaviours. This program is essential for promoting these values and behaviours, driving employee engagement, and improving the eNPS score. Capita L&D does not cater to these specific leadership development needs.
- **Mandatory Learning Requirements:** DCC has mandatory learning requirements that are part of its licensing obligations, in addition to those required by Capita. DCC's L&D team manages these specific compliance training programs independently.
- **Talent and Apprenticeship Development:** Capita focuses on talent development for CEO direct reports, which only encompasses the CEO at DCC. In contrast, DCC's L&D team handles talent development and apprenticeship programmes for the broader organisation. This includes creating and rolling out development programmes for managers and line leaders, integrating DCC's values and behaviours into the performance management system, and supporting comprehensive development initiatives.

In summary, while DCC leverages Capita's Learning Academy for general soft skills training, the L&D roles at DCC operate independently for all other initiatives due to differing values, mandatory learning requirements, and a broader scope of talent development activities.

The current Learning & Development (L&D) function at DCC consists of four key roles. One of these roles is a coordinator role, which is utilised more broadly than just within the L&D team.

- **Head of Culture and Engagement:** This role was created in response to lower engagement scores and aligns with our people strategy. The Head of Culture and Engagement has already significantly reduced turnover, improved job satisfaction, and implemented culturally aligned initiatives. This role is essential for enhancing leadership engagement, boosting employee satisfaction, prioritising well-being, and ensuring continuous progress through internal measurement and reporting.
- **Diversity and Inclusion (D&I) Lead:** A fixed-term specialist was recruited to develop a D&I strategy in line with the Responsible Business Framework (RBF). This role benchmarks DCC's market position, sets diversity targets, and formulates a comprehensive D&I plan encompassing recruitment, retention, training, and policies. The D&I Lead focuses on improving job satisfaction, employee retention, organisational performance, legal compliance, and engagement with colleague networks.

- **Social Impact Manager:** This role leads the Social Impact pillar of our RBF, reflecting our commitment to ethical practices, sustainability, and social responsibility. The Social Impact Manager develops strategies aligned with our social goals, engages stakeholders, assesses social performance, and addresses risks. This role enhances the impact and efficiency of our social responsibility initiatives through in-house expertise.
- **Talent Manager:** The Talent Manager designs talent management processes, collects and stores talent data, creates talent and succession plans, improves performance management, upskills managers, and identifies critical roles. This role is crucial for developing an internal talent pipeline, integrating behaviours into performance evaluations, identifying critical roles, and ensuring consistent talent management across all organisational levels.

Each of these roles supports our commitment to a strong organisational culture, diverse and inclusive practices, social responsibility, and robust talent management. Since the Annual Business Plan last year, the People team has reduced the resource forecast for RY24/25 and has already decreased headcount by 5 FTE, with further reductions planned by year-end. Capita does not support DCC in these essential activities.

#### 1.4.6. People – Internal Communications

DCC's Internal Communications team helps DCC colleagues understand and engage with the company's strategy and understand how their roles contribute to its objectives and performance. Through channels and events which the Internal Communications team leads, they help build connection and collaboration across DCC, to maximise our collective efficiency and success in serving our customers and delivering our mandate.

During RY23/24, this team played a key role in supporting the company's journey towards operational maturity and performing at scale. This helped to shape the long-term strategic narrative and the activities which will help to embed it. During 2023, we were pleased to see employee engagement rise to a three year high of +14 Net Promoter Score and for metrics on leadership, wellbeing, and diversity and inclusion increase too. In April 2023, DCC's internal communications team of three colleagues moved reporting lines after the Corporate Affairs team disbanded. Internal Communications transferred to the People Team and External Communications has aligned to Strategy and Regulatory Affairs.

##### Activities driving change in resource in

Following the restructuring of the Communications team in RY23/24, the Internal Communications team was transferred to the CFO cost centre, and the External Communications team moved to Strategy and Regulations within the Corporate Management Cost Centre. In the RY22/23 Price Control submission, we forecast £1.25m would be incurred across the Communications team in RY23/24. Ofgem did not reject this forecast, and consequently the team's baseline for RY23/24 was set at £1.25m. In the Corporate Management cost centre narrative, Ofgem will see a negative variance for the External Communications team of £0.379m in RY23/24. The majority of the variance for the Internal Communications team in RY23/24 and beyond is because the baseline for it is assigned to the External Communications sub-team. In addition, we believe that two roles have been assigned costs in the Internal Communications sub-team that should be within HR Operations, having the effect of increasing the incurred costs for the Internal Communications team. These were:

- Diversity and Inclusion Lead
- Senior Community Manager (which has been renamed to Social Impact Manager)

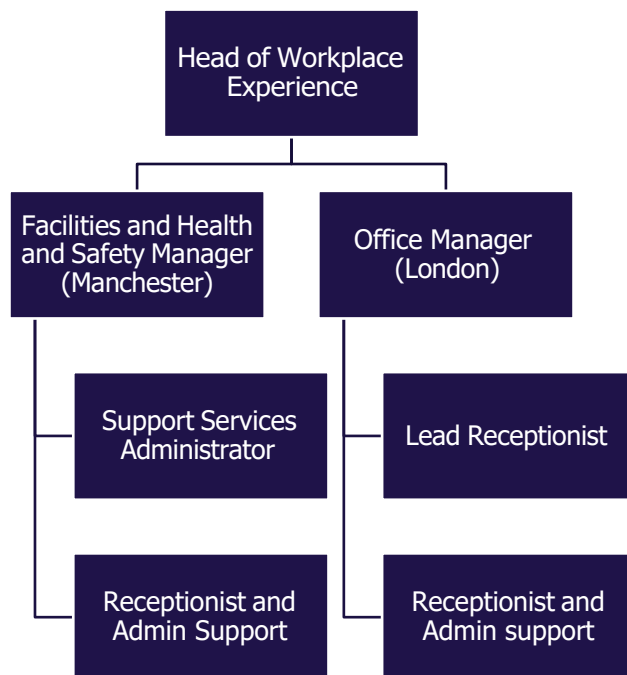
In RY23/24, the Internal Communications team began evolving to meet the needs of a business which is maturing, but also has a major suite of critical change programmes emerging or in flight. Alongside existing programmes for 4G Communications Hub & Network (CH&N) evolution and commercial transformation, we will see Licence Renewal activity and a move to ex-ante payment model which will signify a period of sustained change and need to adapt how we operate. We took on interim support to look at the long-term strategy for Internal Communications and help to define the future structure of the team and its channel mix. We also instigated a change of service provider for our company intranet site, to take this channel in-house onto a SharePoint solution which is more cost effective, allows self-service and is in keeping with our IT strategy and security protocols.

#### 1.4.1. People – Workplace Experience

The organisation chart below shows the structure of the Workplace Experience team at the end of RY23/24.



Figure 9: Workplace Experience organisational



As of June 2024, four full-time roles related to Workplace Experience at Brabazon House and Ibex have been transferred to CBRE under a tupe agreement with one further role transitioning over in August 2024. This means these services will now be handled by CBRE, keeping the costs outside the payroll variance for RY24/25 and RY25/26. Only one role, Workplace Experience Manager, will remain. Predicted savings for moving to CBRE over 5years will be £0.9m.

Below details the main activities carried out by the six roles during R23/24.

Three roles are based in Ibex House and three in Brabazon House. They consist of one Receptionist, one Manager, and one Assistant in each location. The Leadership role is essential for optimising the workplace experience, driving collaboration, and evolving ways of working to reflect shifts in working practices. The front of house team needs to ensure we are strictly adhering to the security requirements laid down by our Security team. The front of house team is the conduit between colleagues (who have daily requirements, questions, and facility needs) and the facilities management (FM) service provider.

We procure FM services from Capita for Ibex House and Discovery House and from [REDACTED] in Brabazon House. The services provided include cleaning, waste management, statutory maintenance (Planned Predictive Maintenance (PPM)), reactive maintenance (break downs and repairs), overseeing contractors working on site, and reviewing RAMS (Risk Assessments and Method Statements). The FM service providers also provide fire evacuation management, first aid co-ordination, safety in the office (e.g. trailing wires, trip hazards and so on) and temperature control. Additional duties include coordination of catering, refreshment replenishments, courier ordering, stationery ordering, post, overseeing meeting rooms, visitor management, issuing passes to visitors, new starters and consultants, managing the desk booking system and so on.

The team in Brabazon House oversee two locations – Manchester and Ruddington. They also manage the cleaning and security teams and must be available out of hours as we run 24x7 locations. To remove one role would leave the sites vulnerable as it doesn't allow resilience for unplanned sickness and planned holidays.

The team in Ibex House runs the one location in London. We have trialled retaining only two people, but this left us with unacceptable risk levels as unplanned sickness and planned holidays meant we had just one person to cover the whole office. Given our security obligations, we are not able to leave the reception unmanned during breaks.

Capita provide FM services via a third-party service provider ([REDACTED]) at Ibex House and Discovery House. They also provide us with Group Property support with regards to the three property leases.

## 1.4.2. Risk and Audit

Condition 7 of the Licence requires DCC to “establish and maintain effective arrangements for corporate governance, internal control, and risk management so that the environment in which the Authorised Business is carried on is and will remain fit for purpose”. The licence further requires DCC to operate its control and risk management environment as if it were a quoted company and in line with the UK Corporate Governance Code, and pursuant to the listing rules of the Financial Conduct Authority.

The role of the Risk and Assurance Function is to ensure that the control and risk management environment reflects Licence requirement, is maintained, and keeps pace with the significant growth in scale and complexity of the network and the services it facilitates. Since 2022, the Risk and Assurance function has been restructured to ensure we have the right coverage and expertise to assure four key areas in the business:

1. Risk Management
2. Internal Audit
3. Compliance with Codes and Licence requirements
4. Health and Safety (legislative requirement)

### Activities driving change in resource in RY24/25 and RY

The restructure and, therefore, the change in resource costs relative to the RY21/22 cost base has involved the hiring of a Director of Risk and Assurance in May 2022 to replace the Chief Risk Officer, the hiring of an additional Compliance Manager in February 2023 to assure compliance against the SEC and REC requirements, and a Head of Risk, hired in December 2023, to drive improvements in Risk Management process and outcomes across the Business. In addition, we have also upgraded the quality of capability across the rest of the team.

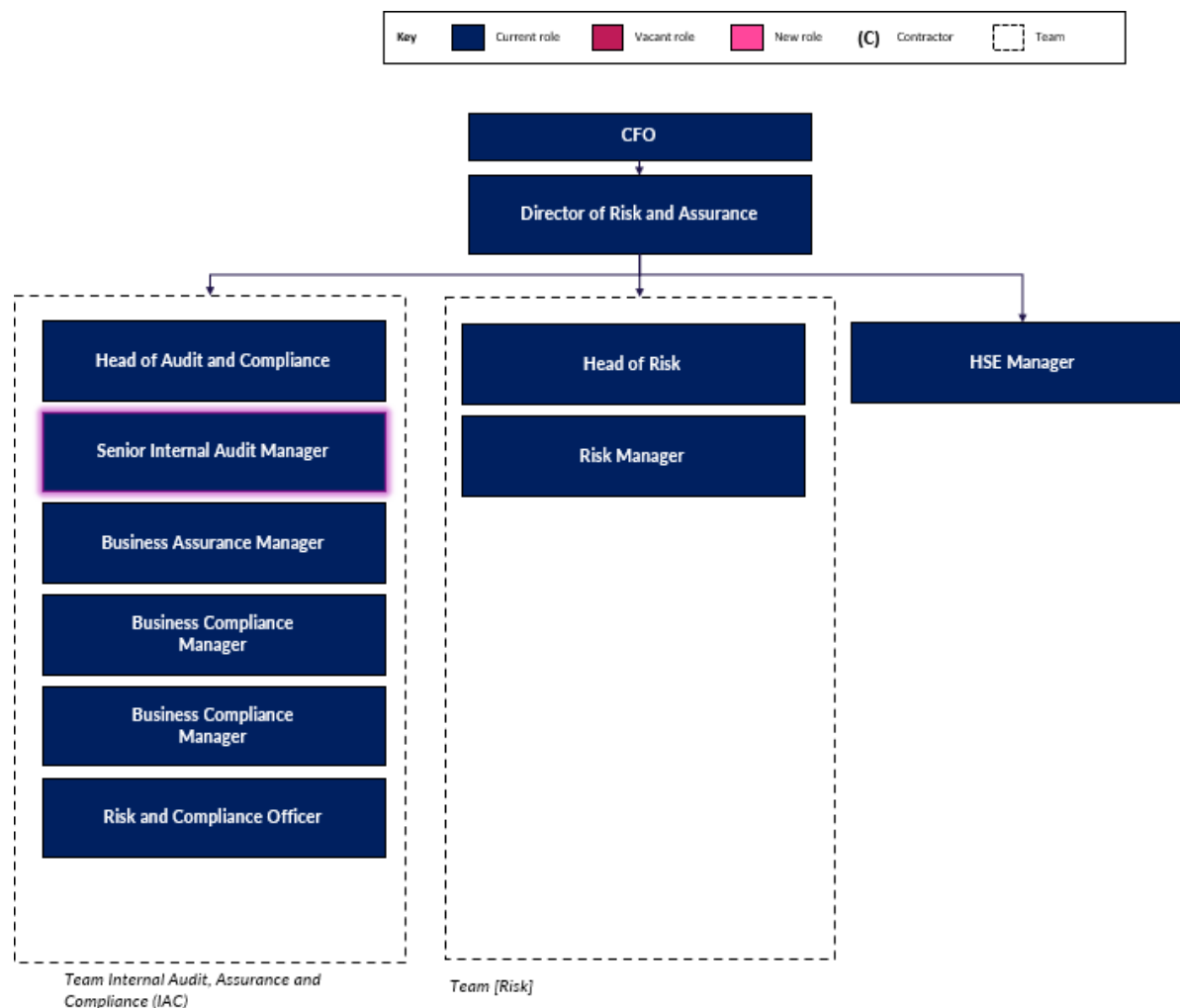
There are several benefits to customers from the restructure of the team, and the headcount we now have in place:

- The significant growth in size, scale of complexity of DCC requires an appropriate level of resource to provide an effective second and third Line of Defence to ensure all controls are maintained across the business and the right level of auditing is done to ensure the effectiveness of those controls (including how our Supply chain is managed) and to ensure value for money across our services. The structure we now have in place ensures we can conduct in-house most of the audit work, rather than having to engage external (and expensive) co-source partners to conduct those audits.
- The management of our compliance framework in DCC is part of our third Line review, on behalf of customers, to ensure that customer requirements as expressed via the SEC Panel are being effectively carried out. The SEC includes about 2,500 lines of requirements to review, test, and ensure action plans are in place against non-compliance. This task is significant and with the addition of a similar requirement related to REC compliance (which went live in September 2022 and stretches to about 350 lines of requirement), we required the addition of one FTE to help ensure full coverage. Both SEC and REC continue to grow, with the increasing scale and complexity of DCC services, with several updates of both codes per year to follow through.
- Effective Risk Management is critical to ensure early warning of any potential failures across our services, and, crucially, across the supply chain. In our changing capacity to be the strategic lead in the smart meter programme, and following previous failures in our supply chain, DCC has significantly enhanced our Risk Management process and capability. While improving process across DCC functions we have also developed a new Third-Party Risk Management Framework to manage resilience across our Supply Chain. As we have seen in previous years, our supply chain has grown significantly and when failures occur, they can be expensive. The new Head of Risk role is an investment in quality and long-term Risk management process improvements to manage our increasing workload and to ensure customers are not the subject to significant costs from unforeseen risks.
- The downside financial impact to customers associated with Risk crystallisation, failure across the supply chain or a failure in the delivery of core services and the controls which support them could be severe, therefore the investment in these preventative measures and the headcount to deliver them we believe is appropriate.

The headcount and team structure we now have in place is, we believe, the right one to deliver against the Licence requirement and to operate in line with a ‘listed company’. The headcount and capability we now have in place is appropriate, and compared to other organisations of size and scale is modest in comparison. We have included an organisation structure below for reference. Our headcount is broken down as follows:

- Two FTEs are tasked with delivering risk and policy-based internal audits and tracking audit recommendations through to completion to achieve control improvements.
- Two FTEs manage Enterprise and Functional risk across DCC and Third-Party Risk across our supply chain.
- Two and a half FTE perform regulatory compliance assurance across the Licence, SEC, and REC.
- One FTE ensures Health, Safety and Environment (HSE) compliance across all sites.

Figure 10: Risk and Assurance team



### 1.4.3. Business Planning and Financial Planning and Analysis (FP&A)

As the DCC evolves, so must the Finance function. It will need to develop a broader platform to deliver more services to more end users, with greater insight and support. The Finance function has therefore changed both structurally and operationally to meet these new demands and ensure our success. The FP&A team carries out financial planning and analysis functions across the organisation.

#### Activities driving change in resource in

To give Commercial Finance the capacity to handle these new tasks, Business Planning and Financial Planning and Analysis (FP&A) has been separated and reports directly to the CFO. Business Planning and FP&A continues to build and strengthen their capabilities. This includes improving and delivering our reporting systems, working closely with the financial control team. The FP&A team are also responsible for the cost efficiency programme which is driving tangible cost efficiency initiatives and a key element to Smart DCC Corporate Objectives.

The Business Planning and FP&A team was created by combining members from the Commercial Finance team and the Corporate Management team. Initially, it comprised six people and is now seven people. This restructuring aimed to centralise and enhance financial planning and analysis functions across the organisation. Improvements to business

planning and forecasting were implemented to drive forecast accuracy which improved accuracy to 96% in RY23/24 (actuals vs. budget)

**Table 6: Changes in variance vs baseline across**

Baseline		RY23/24	RY24/25	RY25/26
Commercial Finance		1.714	1.714	1.714
Business Planning and FP&A		-	-	-
Corporate Management		0.200	0.200	0.200
Total		1.914	1.914	1.914
Incurred		RY23/24	RY24/25	RY25/26
Commercial Finance		1.371	1.585	1.684
Business Planning and FP&A		0.822	0.783	0.832
Corporate Management		-	-	-
Total		2.194	2.368	2.516
Variance		RY23/24	RY24/25	RY25/26
Commercial Finance		-0.343	-0.129	-0.030
Business Planning and FP&A		0.822	0.783	0.832
Corporate Management		-0.200	-0.200	-0.200
Total		0.280	0.454	0.602

When compared to the Ofgem Baseline, Business Planning and FP&A shows an increase in costs, while Commercial Finance and Corporate Management show decreases. As an explanation of these changes in Headcount and Pay:

- Aside from the initial setup, one more person was hired to support the FP&A team.
- The increase in costs for the next years (RY24/25 and RY25/26) is mainly due to salary increases (pay awards), rather than significant changes in staff numbers.

As mentioned above, in RY22/23, the Business Planning and FP&A team underwent significant changes, starting with six members and additional non-resource costs to support the implementation of new processes. Two Business Planning Managers moved to Commercial Finance, and a new Head of Business Planning was created. [REDACTED] provided additional support for the Business Accuracy Programme and to cover recruitment gaps.

By the end of RY23/24, the team had grown to seven members, with additional support during the year. The FP&A and Business Planning functions were merged under a single Head of FP&A and Business Planning, moving away from Commercial Finance. The team maintained two Business Planning Managers and ended the year with two FP&A Managers and two FP&A Analysts. The interim Head of FP&A continued until June 2023, with the permanent role lasting until October 2023. However, by the end of RY23/24, the Head of FP&A position was vacant.

Summary of RY2023/24: Total of seven members at the end of the year

- Merged FP&A and Business Planning together under one Head of FP&A and Business Planning and moved away from Commercial Finance.
- 2 x Business Planning Managers (no change).
- FP&A Managers and two FP&A Analysts.
- The Head of FP&A on an interim basis continued until June 2023 and in a permanent role 4 months to October 2023.

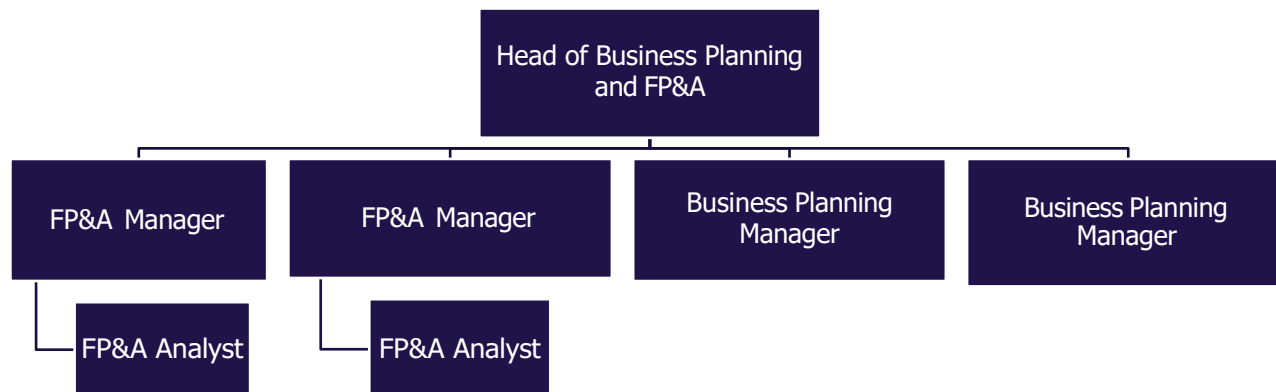
We finished RY23/24 with no Head of FP&A as the vacancy has not yet been filled.

However, some of these variances are offset by the following:

- **Financial modelling team - £0.2m:** Some of the increased costs were balanced out by reductions (negative variances) in the Corporate Management budget and in the Commercial Finance budget that helped offset the new costs. However, Commercial Finance has expanded its business role to support new initiatives by creating the economic modelling team to support the network transitions from 2G/3G to 4G and No Wide Area Network (WAN). We will now have a single team within finance to manage these strategic changes and challenges.

- **FY impact FBP vacancies being filled in RY23/24 - £0.1m:** Positions that were empty in the previous year were filled, leading to extra costs.
- **FP&A/Business planning team being formed - £0.2m:** Setting up the new FP&A and Business Planning team also required additional resources.

Figure 11: Business Planning and FP&A team



#### Activities driving change in resource in RY24/25 and

The forecast costs for the FP&A team are broadly flat, mainly due to the additional expenses incurred from having an interim Head of FP&A for six months followed by a permanent Head for four months. Future costs do not yet account for changes related to support the additional work required by Finance for the move to an ex-ante price regime. These adjustments are being processed as part of the Q1 Forecast and are expected to result in a net cost reduction for DCC. We continue to look for a replacement Head of FP&A as the vacancy has not yet been filled.

#### 1.4.4. Business Accuracy Programme Resource

Business Accuracy was part of a wider transformation towards an accountable, resilient, process-driven and efficient DCC. The Business Accuracy programme focused on improvements in our Commercial, Finance and Portfolio business areas. The programme completed in July 2023.

There were several internal and external factors driving the work in Business Accuracy. These were noted during the period of stakeholder engagement and scoping before the programme began and have acted as central pillars and design principles throughout the programme.

1. The need to demonstrate value for money for our stakeholders.
2. Growing complexity of the business.
3. Improved governance and assurance over activities.

More detail on the BAP objectives and our external support is set out in section 1.6.1.

We have allocated our internal resources that have contributed to the final stages of our Business Accuracy Programme. This includes resources from across DC, including Service Delivery, Security, Commercial, Operations and Testing.

#### Activities driving change in resource in

In total, we had about 3.3 FTEs supporting the BAP over April 2023, which includes:

- **Programme management:** 1.1 FTEs for Programme Director, Programme Manager, PMO support and reporting.
- **Commercial:** 0.3 FTE for support across procurements and supplier management
- **IT solution and support – EIT, Security and Testing:** 1.6 FTEs across solution architects, test analysts, device specialists, information and security specialists (various roles) and test assurance and governance.

- **Enterprise change:** 0.2 FTEs supporting DCC to embed the programme and tools, through processes and cultural change initiatives.

### 1.4.5. FY25/26 forecasts

Across all our payroll teams, no baseline has been set for RY25/26. We have cost variances for four sub-teams that do not also have a variance in RY24/25. As shown in the table below, we forecast equivalent costs for RY24/25 and RY25/26, and are not proposing significant variations to the team headcounts or responsibilities.

Incurred			RY24/25	RY25/26
Commercial Finance	£m		1.585	1.684
Enterprise IT	£m		2.054	2.163
EPMO	£m		2.450	3.075
Finance Office	£m		0.565	0.600
Finance Transformation	£m		0.617	0.437
Financial Reporting	£m		1.047	1.112
Legal	£m		0.969	1.164
People Team	£m		2.059	2.175
Regulatory Finance and Pricing	£m		0.158	0.190
Risk and Audit	£m		0.997	1.026
Business Planning & FP&A	£m		0.783	0.832
Workplace Experience	£m		0.350	0.369
Internal Communications	£m		0.678	0.704

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

This section explains the changes in non-resource costs from the last price control period. The key areas include non-payroll costs, recruitment, external services, internal services, IT services, and office sundry expenses. The following sections will detail the reasons for cost changes in each of these areas.

Variances have been described according to their individual sections.

**Table 7: Material variance by**

Variance	GL		RY23/24	RY24/25	RY25/26
<b>Total Accommodation</b>	AC	£m	-	-	-
<b>Total External services</b>	ES	£m	3.640	2.613	2.561
<b>Total Internal services</b>	IS	£m	-0.022	-0.074	-0.070
<b>Total Service management</b>	SM	£m	-	-	-
<b>Total Transition</b>	TR	£m	-	-	-
<b>Total IT Services</b>	IT	£m	1.076	1.137	5.301
<b>Total Office Sundry</b>	OS	£m	-	0.063	0.065

The sections below expand on the variances across the different GL Codes.

## 1.6. IT costs

This section explains the changes in IT costs from the last price control period. The key areas include AWS Hosting, laptops, Enterprise IT, and Office 365. The following sections will detail the reasons for cost changes in each of these areas.

**Table 8: Material variance for IT**

Variance	GL		RY23/24	RY24/25	RY25/26
AWS Hosting costs	IT	£m	1.001	1.224	1.236
BAU	IT	£m	0.126	0.046	0.158
BAU - ITES - Laptops	IT	£m	0.189	0.066	0.309
BAU - ITES - WIFI	IT	£m	-0.024	0.017	0.255
Enterprise IT	IT	£m	-0.749	0.170	1.996
FTP	IT	£m	-0.038	-0.151	0.180
Office 365	IT	£m	0.268	-0.009	0.809

We have explained the material variances in the sections below. Where our GL groupings also include small, individual line items that do not amalgamate to £150k, we have excluded these items from the following sections.

### 1.6.1. AWS Hosting costs

Our Amazon Web Services (AWS) costs were historically forecasted as part of Enterprise IT. Given the change in our AWS services, we have separated the costs into a separate line item for all three years.

AWS is a major global supplier of cloud computing services. The DCC hosts several services with AWS that deliver functionality mandated by the Smart Energy Code and the Retail Energy Code, as well as to operate DCC as a business, as follows:

**Table 9: Summary of AWS**

Service Name	Area	Criticality	Key Changes for 2024
Security Operation Centre Tooling	DCC Enterprise, Total System, Switching	Critical	Infrastructure design under review. Potential expansion to cover more areas.
Data Science and Analytics (DS&A) • (EDAM (Enterprise Data Analytic Model)/CEDAR • Receipt of Total System Data, Omniscipe Reporting Technology Operations Centre Tooling	Total System Reporting	Critical	EDAM is in process of being replaced with CEDAR. Data lake architectures under review.
Interoperability Checker	Total System	High	
Proof of Concept	Total System	Medium	
ECoS (Enduring Change of Supplier) Device Candidate Selection Engine (DCSE)	Total System	Critical	Sizing of DCSE to be reviewed as TCOS migration to ECOS completes and enters BAU.
FTP	Total System	Critical	Solution application and infrastructure are under review during 2024

Our AWS usage has increased to a point where we are now incurring in the region of [REDACTED] per month. This can be attributed to a number of key cost factors:



- **Actual service usage:** Exact costs for each month will fluctuate due to variance between forecast and actual usage. An example of this is when actual volumes of data received are higher or lower than expected and consequently the amount of computing resources required to process the data changes.
- **CEDAR:** We are moving from EDAM onto Redshift to create the new CEDAR platform for regulatory reporting, the latest monthly cost being £[REDACTED]. The uplift in cost is due to paying for running two concurrent solutions to support DS&A and maintain our obligations to report while we transition between systems. This is expected to decrease once the new solution is in place and EDAM is retired. As described in Section 2.3.1, we use this platform to deliver our mandated reporting services to our regulator, government, and customers.
- **DCSE:** The addition of Device Candidate Selection Engine (DCSE) to support ECoS services in pre-production and production environments. This was part of the ECoS business case.
- **Security logs:** We are increasing additional security log capture by the DCC SOC to improve system monitoring and threat identification.

### Driver for the

**Actual service usage:** There has been a large increase in traffic across the network in RY23/24. Message volumes have risen 47% in the last 12 months driving significant increases in the amount of data ingested, processed, and transformed to deliver operational insights and regulated reporting.

**Security logs:** The increase in Security costs is incremental as the volume of log-files ingested increases over time and was anticipated as part of the business case for the Security Program.

As per the ECoS programme, there was a requirement for a device candidate selection engine (DCSE) to derive the right device types for certificates. Following informal engagement with external partners, the cost was suggested at being greater than £[REDACTED] to develop and maintain across the life of the ECoS programme. By utilising internal capability within the DS&A team, DCC was able to meet the requirement with an internal build cost £2 [REDACTED] per annum in cloud infrastructure costs. This required support from three FTEs for the six-month build and one FTE to maintain across the life span of the programme. Our approach saved us potentially over £[REDACTED] based on the initial engagement suggested costs. Additionally, by developing this internally as change requirements across the programme, the DS&A team was able to effectively pick up and resolve and no extra cost beyond FTE time and needed infrastructure costs. If this had of been provisioned by an external supplier, these changes would have required costly CRs. This service will be spun down over the next few months as the ECoS migrations come to completion.

To ensure Smart DCC's ability to deliver upon its reporting obligations and to continue critical BAU operational activity such as 24/7 network monitoring, we have been required to develop CEDAR whilst dual running the existing EDAM platform. This has led to a period of increased costs which will reduce again post the formal migration of all live service from EDAM and its subsequent decommission. Additionally, to effectively complete the activity, there is numerous development environments in operation which will be decommissioned post us reaching production with a clear pathway.

Post the platform being effectively full commissioned into live with all capabilities transitioned, we can commence an extensive process of cost optimisation as laid out in the Data Platform document. We will understand our true utilisation and adjust infrastructure resources and processing or retention schedules to reduce costs. We will also have better insight into what resources we should pre-pay for to secure discounts.

Development of the platform will underpin data requirements of for all future programmes. Data from suppliers will be ingested into the platform and then all reporting and operational insights will be provisioned by the DS&A team through the platform. This will save significant costs as suppliers will not be expected to provision at cost reporting to be utilised within Smart DCC. We will build up from raw data sources. ECoS reporting was more than £[REDACTED] from Accenture for Target Operating Capability (TOC) reporting for implementation and running the platform for one year. Moving forward the platform with flexibility and scalability will mean we can avoid large costs.

### Securing Value for Money

When we first looked to contract a resilient cloud computing supplier, we sought:

- Resilience – Is there sufficient solution robustness to meet DCC's requirements for continual operations?
- Capacity – Can the solution meet our forecast data needs?
- Available skilled resource – Can the supplier provide support as and when we need it?
- Guarantee of data sovereignty in the UK to comply with SEC – Can the supplier meet some of our fundamental requirements?

Based on the above factors the best technology for DCC's requirements was AWS.



Over several years of operating the EDAM platform and the new Data Platform within AWS environments, the team has developed deep hands-on expertise in the tooling. The DS&A (Data Science & Analytics) team consist of circa 30 individuals who all require access and understanding of the platform and how to use it. The team sits within the Operations function. Within this, there is a team of circa 10 individuals with extensive development capability who support our databases, reporting pipeline and automation abilities. These skills have grown organically over time.

To transition away from AWS to another Public Cloud, the DS&A team would require extensive training across the entire team and then specialist training for the 10 individuals in the development area. To reach the level of competency in another public cloud extensive training would be required, and this training would need to be delivery alongside BAU obligations. To move away from AWS, DCC would need to dual run the data platform in two separate public clouds. The build would likely be complex and need external consultancy support to deliver in the first instance and then post training and sandboxing the DS&A team could look to support. The time frame would likely be 18-24 months of dual running. The migration within AWS from EDAM to CEDAR has already taken 10 months and the fully migration activity still needs to be completed so these feel like very realistic timeframes.

We already ingest significant volume of data from DSP to support our mandatory reporting commitments, and most of the applications within Enterprise Cloud in AWS require access to this data. In most cases, it has been assumed that to build services in alternate cloud options such as GCP and Azure would significantly increase the cost of the service as data would have extra ingress/egress costs to transit between platforms, plus we would need to provide duplicate resources to effectively develop and support in multiple cloud platforms.

**Pricing comparison:** we conducted a cost-benefit analysis of continuing to utilise AWS compared with migration to an alternative. Hence, we created a high-level migration plan between different cloud providers or delivering cloud provider-agnostic solutions. Both are potential options alongside continuing to focus on delivery using AWS' cloud platform with a small amount hosted in Azure. As you can see from the table below, there are significant cost duplications, teams required, development time, development costs and risks that would increase uncertainty. Therefore, remaining on the existing cloud structure with increased cost controls was deemed the most effective direction.

### Table 10: AWS pricing

	Stay with AWS	Migrate to new provider	Approx Size
Monthly usage cost with AWS			
Monthly usage cost with new provider (assuming a +/- 10% change in costs)			
Project team to build infrastructure in new provider platform <ul style="list-style-type: none"> <li>• Programme/Project Management</li> <li>• Architecture</li> <li>• Analysis</li> <li>• Development</li> <li>• Test</li> <li>• Resource from other functions at DCC (e.g. People, Security, Finance, Service Delivery)</li> </ul>			
Development/migration time			
Team to run current infrastructure			
Team to support new platform during dual running			
Training on new provider platform for: <ul style="list-style-type: none"> <li>• Existing team</li> <li>• SOC</li> <li>• DS&amp;A</li> <li>• Supporting resources from other areas</li> </ul>			
CRs with multiple Service Providers			
3 <sup>rd</sup> party development costs (e.g. ██████████)			
Risk to service for 1 or more services during migration			

Over several years of operating the EDAM platform and the new Data Platform within AWS environments the team has developed deep hands-on expertise in the tooling. The DS&A (Operations – Data Science & Analytics) team consist of circa 30 individual who all require access and understanding of the platform and how to use. Within this there is a team of circa 10 individuals with extensive development capability who support our databases, reporting pipeline and automation abilities. These skills have grown organically over time. To transition away from AWS to another Public Cloud the DS&A team would require extensive training across the entire team and then specialist training. To move away from AWS, you would need to dual run the data platform in two separate public clouds. The build would likely be complex and need external consultancy support to deliver in the first instance and then post training and sandboxing the DS&A team could look to support. The time frame would likely be 18-24 months of dual running. The migration within AWS from EDAM to CEDAR has already taken 10 months and the fully migration activity still needs to be completed so these feel like very realistic timeframes.

Since implementing the services in AWS Cloud, we have maintained a rolling contract directly with Amazon Web Services. As our usage has increased significantly, we are now in the process of reprocurring the AWS services to seek advantage of discounts which can be exploited, including:

- Reserved Instances (RIs) - discounts in exchange for a long-term commitment
- Savings Plans based on AWS usage
- Volume Discounts: lower pricing for services as volumes grow

We intend to invite Capita to the procurement as historically they have been able to offer the benefits of their enterprise affiliate agreement, as well as Amazon and other resellers. The internal procurement process has started, aiming to issue an initial RFI in August/September 2024.

### 1.6.2. BAU - ITES - Laptops

Historically we have leased laptops from Capita with a three-year warranty, which entrenched DCC in a rolling cycle of four-year commitments to new devices. To ensure DCC was able to improve the warranty of devices we acquired, but also reduce our lease commitment which extended past Capita's license to operate DCC, we opted instead to start procuring devices from 2022.

We conducted a comparison of purchase options for our three standard laptop models, comparing direct purchase from [REDACTED], [REDACTED] resellers and purchasing through Capita. A [REDACTED] procured directly from [REDACTED] would cost over [REDACTED] whereas the cheapest option was to purchase through Capita through their Global Purchase Agreement at circa £[REDACTED] per device.

EIT committed to the business that we will provide the desktop tools to people to perform effectively in their roles, and having a stable, standardised, and cost-effective device is part of that commitment. The arrangement with Capita is as a call-off against the Capita MSA and is a one-year commitment for [REDACTED] devices, and this will be reviewed mid-year before restarting the procurement process to ensure value for money is maintained. However, as this is a rolling cycle of device management, there will be an ongoing need to replace broken and damaged devices, and to replace older devices that are out of warranty before they begin incurring warranty repair costs.

### 1.6.3. Office 365

The category of Office 365 covers several applications that are utilised to enable a secure, efficient, and effective computing experience for our employees, which is critical for us to produce a secure, stable, and reliable service. This includes, but is not limited to:

- Windows E5 licenses for the Windows and Microsoft Office applications for circa 1,000 DCC employees, contractors, consultants, and Service Desk
- Azure Directory licenses for more than 5,000 third party user accounts (customers, suppliers, regulators, etc.) to access secure file storage in SharePoint
- Microsoft Visio and Project licenses for role-specific requirements
- Azure consumption costs for business applications such as the Finance Server, the corporate data-lake and reporting services

The high volume of specific line items invoiced is caused by DCC continuously adapting our license volumes throughout each month to reflect the current requirements. We try to keep the number of licenses available to a

minimum, ensuring cost control related to requirement. Enterprise IT also monitor usage of applications and encourage the release of licenses that are unused to minimise cost.

The use of E5 licenses was justified during the Enterprise IT Program of 2020, where we migrated away from Capita to improve our security posture as there are a significant number of security tools available at this license level that are not part of lower-level license options.

DCC purchases Microsoft licenses through a Trustmarque and Capita arrangement that exploits Capita discounts. During 2024, we are running a new procurement process to ensure that we continue to attract the best possible pricing.

The increase in Office 365 costs for RY23/24 reflects an increase in the number of individual’s licensed to use Office 365 within DCC, growth in the use of Microsoft DevOps as a tool to automate cloud development and deployment, additional licenses for Video Conferencing via Microsoft Teams, and the addition of OneData hosting costs.

### 1.6.4. Forecast RY24/25 – Enterprise IT

We forecast our Enterprise IT costs to increase by ~[REDACTED] from our RY23/24 spend, which is circa £[REDACTED]k above our Ofgem baseline. Within this “Enterprise IT” pool are licence costs for applications the business uses to perform its duties.

As you can see in the table below, with the cost broken down by supplier, each application has a defined purpose and will have been through a procurement process to acquire the service. In terms of value-for-money, there are two examples below where a service has been re-sourced to either improve the service or reduce cost:

- [REDACTED] [REDACTED] has implemented much of our video conferencing systems. Post an RFP, conducted to ensure that DCC gets the best service and price, AJAR will provide ongoing support.
- [REDACTED] [REDACTED] are being replace by [REDACTED] following an RFP to find a tool that increases integration with other DCC platforms (ensuring we get increased value from our Microsoft licenses), improved control of content, value for money, and better control over where DCC’s data is stored.

Please note that the Amazon costs are discussed in section 1.5.1 and that the EXL service costs are covered in Section 1.6.8.

There are always new business initiatives around software, either to invest in new products or services, retire applications, or to develop the use of existing ones. As we continually revisit the license volumes this can also introduce some degree of variability. Enterprise IT usually contain the budget for ongoing licenses, hosting costs and support costs for implemented systems, so the costs in this area will be influenced by the volume of change in the business. As an example, strategic platforms such as OneData will need to continually evolve to integrate with new data sources and provide new reporting functionality depending on business needs.

Table 11: Summary of Enterprise IT

Supplier	Cost (£)	Service newly procured, renewed or existing contractual
[REDACTED]		

### 1.6.5. Forecast RY25/26 – Various

We have RY25/26 cost variance across several of our IT costs:

- AWS Hosting costs
- BAU
- BAU - ITES - Laptops
- BAU - ITES - WIFI
- Enterprise IT
- FTP
- Office 365

No baseline has been set for RY25/26, therefore all costs for the above items are showing a variant compared to the zero baseline. We forecast equivalent costs for RY24/25 and RY25/26 (or small increases), and are not proposing to significantly vary our IT services.

Table 12: Forecast IT

Incurred		RY24/25	RY25/26
AWS Hosting costs	£m	1.224	1.236
BAU	£m	0.153	0.158
BAU - ITES - Laptops	£m	0.306	0.309
BAU - ITES - WIFI	£m	0.255	0.255
Enterprise IT	£m	1.968	1.996
FTP	£m	0.180	0.180
Office 365	£m	0.809	0.809

### 1.7. External Services -

This section explains the changes in external services costs from the last price control period. Key areas include business accuracy, consulting resources, enterprise planning, and legal advice. The following sections will detail the reasons for cost changes in each of these areas.

Table 13: External Services

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement
Business Accuracy Transformation	ES	£m	0.774	-	-	
██████ Consultant Resource	ES	£m	0.206	0.115	-	
Enterprise Change Management	ES	£m	0.198	0.061	-	
Enterprise Planning - █████	ES	£m	0.371	-	-	
Enterprise Planning - █████	ES	£m	0.205	0.446	-	
EXL Onedata Support	ES	£m	0.333	0.306	0.320	
Integrated Activity Planning	ES	£m	0.586	-	-	

Legal Advice - Price Control	ES	£m	0.192	-	-	
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We have explained the material variances in the sections below. Where our GL groupings also include small, individual line items that do not amalgamate to £150k, we have excluded these items from the following sections.

### 1.7.1. Business Accuracy Transformation

As the DCC developed in size, scale, and complexity it was increasingly clear that the business needed a more reliable, insightful, and transparent platform to support its business. The Business Accuracy Programme (BAP) is part of a drive to enable an accountable, resilient, and efficient DCC, shifting the business towards a more controlled, governed, and rigorous culture. The Business Accuracy programme has focused on delivering improvements into the Commercial, Finance, and Portfolio business areas, and completed in RY23/24.

#### Drivers for the

Drivers for this procurement include:

- The need to provide more insight into the performance of the business and to demonstrate value for money for our stakeholders
- The lack of investment since the creation of the business in updating both systems and processes to support its growing complexity and scale
- The need to improve both the governance and assurance of all DCC activities

#### Securing value for money

The forecasted costs were determined through high-level scoping and identification of key deliverables by each workstream. The costs were made up of both internal and external costs. The internal costs represent project management, business analyst and enterprise / data architects that were recruited on a contract basis to run the programme. External costs were largely consultancy providers who provided specific subject matter expertise in finance, portfolio management, planning systems, data governance and change management to ensure our approach is externally benchmarked against best practices seen elsewhere. There were also external costs for other suppliers including for a Commercial supplier, the Financial Planning Tool supplier, and other system or system support suppliers across the programme.

#### Benefits

In the business case for the Business Accuracy Programme, it outlined five direct benefits that it would aim to achieve as follows:

- Improved transparency of performance for key stakeholders based on clear and accurate data  
Measured through improved engagement with our customers.
- Improved predictability and accuracy of programme delivery costs, and an improvement in risk management  
Measured by reduced slippage in plans and budget.
- Improved financial accuracy of forecasting, transparency, and insight. Leading to the identification of cost efficiencies and a reduction in the customer cash contingency balance  
Measured in reduced costs for DCC and cash balance within acceptable range.
- Improvement in staff engagement, and efficiency, through easier ways of working and collaboration  
Measured through improved staff satisfaction and productivity.
- Quicker and more agile ways of working across the business  
Measured through improved staff productivity.

The majority of the benefits of the Business Accuracy Programme are in relation of building a platform which is more reliable (reducing errors), more flexible and transparent (creating better insight in decision making), more accurate (allowing better assessment of risk).

At high-level it could be summarised as follows:

- Efficiency savings through rationalisation of existing Commercial platforms on to a new Commercial system, allowing improved control and ability to challenge costs from procurement through to contract management.
- Reduced costs from CGI programme office through improvement to DCC's internal PMO and portfolio capabilities.
- Standardisation and improvement to Finance processes and data structure to improve efficiency and cost transparency.

- Introduction of the Front Door process to ensure better alignment and increased control over proposed activity across DCC.
- Implementation of a time recording tool to improve cost management of programmes.
- Improved processes for Business Planning (DCC Lock), increasing cost challenge and interlocking, resulting in improved effectiveness of delivery and reduced variances to budget.
- Improved invoicing and PO processes allowing more efficient management of costs.
- Introduction of a Financial Planning Tool to improve the accuracy, timeliness, and granularity of cost forecasts.
- Enhanced management reporting capability through the development of a business wide data warehouse and management reporting tool (Power BI).

These benefits will continue to be tracked and managed by the DCC Finance team to ensure they are realised into RY23/24 and for the two years thereafter.

## Embedding the programme

While some of the deliverables were delayed due to unforeseen circumstances, nearly all of the programme's priorities were delivered within the allotted delivery time (FY23). The two main items which are being delivered beyond this window are the Commercial contract management system and the full suite of Performance Reports (some of which have been delivered within FY23 but not in their entirety). Follow ups for Time Recording and the new Financial Planning Tool were also taking place in FY24, but the main deliverables were still within the original window.

As described in last years' submission, we completed our contract with [REDACTED] in the early months of RY23/24.

We retained one resource with Business Change expertise through Norman Broadbent to embed our system changes. Their role was to coordinate all the 'readiness' activities for each deliverable. From developing and delivering communications to training and assisting with business process design, to briefing teams across DCC, we did everything we could to ensure the change embedded successfully. The resource also looked outwardly across DCC to ensure there was no conflict with other changes being delivered to the same communities of people, ensured a consistent narrative to deliver the DCC vision.

This work also fed into our enterprise change portfolio and the development of the change framework, including its supporting tools, methods, and processes. This study and analysis piece of work, coupled to developing recommendations, a framework, tools, methods, and processes to improve internal change delivery and the realisation of benefits while reducing the organisational and individual stresses experienced by a large volume of business change in support of DCC's strategy and maturity journey.

The other aspect of the Business Accuracy programme was an IT solution to support the required improvements in performance insights and business reporting. We explain our interim OneData solution in the following section and our enduring approach in section 1.7.6.

## Capita OneData support

### Driver for the

OneData was planned to be a centralised reporting platform to enable consistent and accurate reporting to DCC functions. This required the incorporation of data from multiple sources and systems.

### Securing Value for

The plan was to have an initial phase where Capita involvement was required to ingest data from Capita-owned services such as SAP, Workday, and Azure. Working through a third party at this stage would have added further cost as Capita would have been required to present their data. We used a call-off against the MSA to secure resource from Capita to establish these links.

Once complete and links to Capita systems were established, Phase 2 was to re-procure to another service provider who could continue to support and deliver changes and a [REDACTED] was conducted.

[REDACTED] was considered as an option following their involvement in the initial Business Accuracy programme. However, although they had a good understanding of the overall requirements and knew what the expected outcomes should be, initial conversations indicated that this would be a substantially more expensive route, and they were not invited to bid for the project.

Please refer to Section 1.7.6 'EXL OneData Support' for the subsequent procurement of Phase 2: the enduring OneData solution.

## Summary of BAP delivery over RY22/23 and RY23/24

1. Board / Exco / Exco -1 reports improved and updated (several drops)
2. DCC Lock Process for Quarterly review Go Live, business wide planning and performance process
3. Creation of One Data Hub
4. Data architecture and governance principles agreed across core planning systems and performance reporting (data model alignment)
5. Data hierarchies
6. Time-sheeting solution
7. Upskilling and role reinforcement for all managers and key personnel within the planning process complete
8. Lifecycle Contract Management system (procured I-Valua, moved to Commercial workstream for delivery)
9. Rebuild of BPC complete and new financial data hierarchy released
10. Full suite of automated reports from Power BI tool available across the business
11. Improved Purchase Order process
12. Improvements to process and governance for Urgent Work Orders
13. New Delegation of Authority process
14. Clarity Data Refresh
15. Front Door and Road-mapping tool
16. New Standards, Insights and Performance (document repository and governance)

### 1.7.2. [REDACTED] Consultant

To enable formation of an effective Enterprise Portfolio Management Office (EPMO) we used the support services of 3 consultancies – [REDACTED].

[REDACTED] were used at the outset to support with developing a view of all in-flight and pipeline non-BAU activities from across the business that formed the foundation of DCC's Enterprise Plan. A single pan-enterprise plan is critically important in that underpins the strategic outcomes laid out in DCC's Business Development Plan and then enables direction of and support for those activities to be effective. [REDACTED] were used to formulate the Change Management Framework that is being incorporated into DCC's Delivery Framework to better ensure that change (of any type) more successfully lands both in the organisation and for our customers. [REDACTED] were used to onboard 2 EPMO specialists to support with setting up all aspects of the EPMO, whether that be recruitment, policies, frameworks, ways of working, procedures and processes.

Subsequent sections of this document provide greater detail on the services provided by these consultancies.

We onboarded a consultant for a vacancy as the interim Head of Business Insights in the Planning, Process, and Insights Team, working alongside Enterprise Planning and Process Improvement. This key leadership role was essential for significantly improving DCC's efficiency and effectiveness, and for achieving our three-year strategic objectives.

The role ensured DCC's data was accurate, complete, and accessible, supporting reporting and insight generation to drive improvement actions. Responsibilities included developing and implementing robust data management processes across DCC systems, maintaining consistent definitions and structures for data aggregation in One Data, and reporting through Power BI. Additionally, the role team captured lessons and analysed performance to drive continuous improvement, increasing efficiency and value for money for DCC's customers.

#### Driver for the

A Business Insights Manager was hired through contract SSP177. This consultant had significant skills and experience and knowledge in the required domain to help DCC achieve its new three-year strategic goals. The competitive rate offered by [REDACTED] justified the [REDACTED] procurement without an RFP, avoiding potential delays and lost opportunities. Benchmarking against similar consultancy rates demonstrated value for money, with [REDACTED] [REDACTED] [REDACTED]

The individual provided by [REDACTED] had executed this exact role in other organisations and hence was able to bring to DCC a wealth of proven relevant experience and knowledge that could be applied quickly to have the required impact. The consultant happened to be available to join DCC immediately following completion of a similar assignment for a



utility company, so the timing was fortuitous. Going through an RFP would mean that the position would not be filled for a longer period of time, and DCC would undoubtedly have lost the opportunity to utilise this consultant.

In terms of cost, the rate was very competitive relative to a consultant of similar experience and knowledge from other consultancies used by DCC. Additionally, there was a question as to whether other consultancies would even be interested in such a limited assignment.

Benchmarking was undertaken; the values in the table below demonstrate value for money, making it economically efficient to procure directly.

**Table 14: Benchmarking for Business Insight**

Comparator	Equivalent cost
[REDACTED]	

### Securing Value for

A lengthy RFP process would have delayed the appointment and potentially increased costs. The consultant's immediate availability and proven expertise ensured a swift and impactful contribution to DCC's strategic goals. Benchmarking against similar consultancy rates confirmed the competitive pricing of [REDACTED] which was significantly lower than other firms. This approach not only secured a highly skilled expert at a reasonable cost but also ensured that DCC's operations benefited promptly from the consultant's experience, thus maximising efficiency and effectiveness.

### 1.7.3. Enterprise Change Management [REDACTED]

During RY23/24, DCC undertook a full stock take of all Enterprise change currently underway and planned, together with an assessment of DCC's business change and leadership capabilities. The purpose was to streamline how DC delivers and monitors business change activities to ensure the expected benefits are realised on schedule and in full.

From this activity, a fully developed business (Enterprise) Change Management Framework was developed and aligned to the PRINCE II Project management approach. This has been handed to the EPMO team for deployment as part of the wider Programme Governance and Management Framework.

Key activities were:

1. Undertake stock take of all internal business change and improvement activity and build into Enterprise Activity Plan
2. Undertake assessment of DCC organisational change capability, including leadership capabilities to plan, execute and lead change effectively.
3. Review current Business change management approaches being used in DCC and adopting a best practices approach develop a unified organisation framework allied to the PRINCE II project delivery methodology.
4. Develop a specification for Change Leadership Training
5. Identify improvements in DCC 'climate for change and improvement' to ensure change is received well into the organisation.

Capita were approached for support. Their change teams identified they had no capacity to support this work. They further identified that since change is an organisationally specific activity it was best undertaken by in house staff, who understand the business needs and challenges.

[REDACTED] provided additional change project support including providing advice and 'hand-on' help building out items like Programme plans, RAID logs etc, at no extra cost in support of DCC's drive for better forward planning and process adherence.



This commission gave a rapid injection of capability and capacity and took a total of four months – far faster than equivalent activities undertaken by [REDACTED] or the Activity Planning team, whilst directly complementing and feeding into their processes.

The work was the evolution of the Transformation Function work, formerly divided between Activity Planning, New Capabilities and what became known as pillar 2 and the People Team. The support for Business change, need to deliver a framework for DCC to deliver its change make an assessment of change risk and so on all transferred to the people team when Transformation as a Function was reorganised into different parts.

Part of this work was to explore and determine what if any permanent DCC support and resources would be necessary. Given that this was a capability area where DCC clearly lacked the expertise or capacity external support was required to develop the necessary outcomes in a suitable timeframe.

The business was facing considerable internal change at a Functional and Enterprise level and had no change delivery framework or cross Functional coordination. The ability to deliver change successfully was directly affecting the business ability to realise the business case benefits planned for such programmes.

This work defines how DCC will land change through the new DCC Delivery Framework which launches in October 2024. The responsibility to support Internal change communications has resulted in the restructure of the Internal Communications team to include a Change Communications specialist role. Further, responsibility for Organisation Design-led change will rest with the HRBPs, whose role and responsibility in this area have been codified in the change framework and in the processes that they are still developing.

### Securing value for money

We compared the three bidders across quality and commercial scores, where [REDACTED] received a score of [REDACTED]

**Table 15: Summary of procurement**

Procurement - [REDACTED]	
Number of Initial invitations to tender	3
Number of Bids received	3
Number of Bids shortlisted / presenting	3
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

### 1.7.4. Enterprise Planning [REDACTED]

[REDACTED] was engaged to support the introduction and development of an Enterprise Planning process at DCC. This procurement involved three senior consultants working over a three-month period to help establish a robust planning framework and support the integration of enterprise-wide planning assumptions.

#### Driver for the

The need for the procurement arose from DCC's rapid growth and the increased complexity of its operations, necessitating the development of a structured planning approach.

Not engaging in this procurement would have led to uncoordinated efforts across various initiatives, resulting in inefficiencies, increased risks, and possible delays in project delivery. It would also have affected stakeholder confidence in DCC's ability to manage its portfolio effectively.

The long-term strategy is to internalise the capabilities developed through this engagement. This involves training internal staff and embedding the processes and controls within the existing organisational structure to ensure sustainability and reduce future dependency on external consultants. DCC considered enhancing internal resources versus engaging external consultants. Given the immediate need for expertise and the specialised nature of the task, external consultants from [REDACTED] were deemed the most viable option. Customer engagement activities included discussions with internal and external stakeholders to gather insights and ensure the planning process would meet their expectations. This helped align the planning efforts with the strategic objectives of the organisation.

### Securing Value for

A [REDACTED] approach was used given the pace at which we needed to develop an enterprise plan to enable significantly better deliver planning, and the complexity associated with it. This allowed for rapid mobilisation and alignment with DCC's needs.

[REDACTED]'s expertise in enterprise planning and their prior successful engagements with DCC provided confidence in their ability to deliver the required outcomes efficiently. Their comprehensive approach to integrating planning assumptions and their ability to mobilise quickly made them the preferred choice.

The evaluation considered the consultants' track record, expertise in enterprise planning, and their ability to deliver quality outputs under tight timelines. Despite not selecting the lowest-cost option, the emphasis on quality and specific experience justified the procurement decision.

Given the need to mobilise the capability, we didn't formally [REDACTED] procure although, as referenced above, through other RFPs that were underway, there was clarity that [REDACTED] would provide greater value for money in this domain relative to other potential suppliers.

The impact of deciding to [REDACTED] based on extensive experience of working with the [REDACTED] practice, was that the team onboarded rapidly to start co-creating and assuring activity-level plans. This in turn started to provide the organisation with increased confidence in both its business plan and delivery of specific projects and programmes. If we had [REDACTED] procured, the result would have been the same having taken a couple of additional months to get there. Given the relatively low contract value, it deemed this appropriate and worthy of a [REDACTED] [REDACTED]. [REDACTED] is also part of the DCC Consultancy Framework, which was [REDACTED] procured back in 2019, which gives us confidence that we are receiving value for money.

The value of the contact was [REDACTED] which reflected a [REDACTED] % reduction against the total costs in comparison to the current agreed Consultancy Framework rates.

[REDACTED] has also offered to provide the following value-added services at no additional cost to DCC:

- **Team inclusivity** – [REDACTED]
  - Value add: deliver a workshop to build awareness around the role that individuals play in creating a more inclusive environment, considering the insider and outsider dynamics and inequalities.
  - Target outcomes: working together to define tangible actions DCC can take to ensure these dynamics are managed.
  - [REDACTED]
- **Knowledge Transfer Sessions** – Knowledge Transfer (KT) is fundamental for the long-term success and sustainability of programmes and teams. [REDACTED] ongoing proactive approach ensured the capability of the DCC team was developed, allowing portfolio leads to continue this work post engagement. To ensure [REDACTED] actively built relevant capability outside their core planning remit, and fostered a collaborative environment, they ran three **targeted KT activities** around the following
  - [REDACTED]
    - Communication and engagement approach.
    - Supplier management.

- Retail market reform.

The contract included a provision for a one-month extension if required. Plans for realising ex post benefits include continuous monitoring and evaluation of the planning framework’s impact on DCC’s operational efficiency and project delivery success.

1.7.5. Enterprise Planning [REDACTED]

This procurement involved the engagement of two Enterprise Planning Mobilisation Office (EPMO) specialists through [REDACTED], operating outside IR35 and hence classified as consultants. These specialists were onboarded to provide critical support in mobilising the EPMO and its five core services.

Driver for the Procurement

The requirement emerged from an increased scope of enterprise planning activities and the urgent need to onboard specialists to deliver EPMO services. Failing to undertake this work would have significant consequences, including delays in project timelines, inefficiencies in resource allocation and potential financial penalties.

To avoid future reliance on consultancy and contractors, a permanent staff long-term resourcing strategy is being developed. This includes upskilling internal staff, establishing a robust talent pipeline, and creating succession plans to ensure the availability of skilled resources within the organisation.

The procurement of EPMO specialists through [REDACTED] was driven by an immediate need for expertise in all aspects of implementing an EPMO, including enterprise planning and resource management. The procurement process ensured value for money through [REDACTED]. There will not be a long-term reliance on contractors or consultants – by December 2024 they will have rolled off leaving a highly-experienced permanent team in place.

Securing Value for

We issued a [REDACTED] to three consultancies that would be able to provide the requisite skills. As part of our bid evaluation, we undertook extensive benchmarking against true consultancies and contractors was undertaken. This included a comparison of day rates, demonstrating that these specialists provided value for money. Our analysis showed that a contractor operating outside IR35 has been cheaper than using either a contractor inside IR35 or a consultancy firm – demonstrating economic efficiency.

We benchmarked the proposed day rates against [REDACTED]’s rates inside IR35 day rates and other consultants, which found that the proposed rates were overall lower for equivalent experience levels.

Table 16: Summary of benchmarking

Contractors Currently Working Outside	Benchmarking Contractors Inside IR35 –	Benchmarking – Consultants
[REDACTED]		

Table 17: Summary of procurement

Procurement - [REDACTED]	
Number of Initial invitations to tender	[REDACTED]
Number of Bids received	
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	

### 1.7.6. EXL Onedata

#### Driver for the

OneData is a data warehouse containing DCC enterprise data from a variety of source systems, transforming received data where required to deliver information that is presented both through Power BI dashboards/visualisations and through the Azure Analysis Services layer. The overall aim is to provide the DCC's Executive Committee, the DCC Board, and wider DCC Senior Leadership Team with reporting across a range of different KPIs and metrics which are being defined and agreed with these internal stakeholders. The overall aim of this OneData Hub is to help increase the accuracy of data across the business and, thereby, improve decision-making and forecasting, thereby addressing feedback we have had from stakeholders on improving our data processes and usage. From this platform, we can provide reporting capabilities across multiple sources securely providing centralised, secure business reporting.

OneData was designed and implemented by the DCC Enterprise IT team, supported by Capita (see above). Capita's involvement was required to ingest data from Capita-owned services such as SAP, Workday, and Azure. Working through a third party at this stage would have added further cost as Capita would have been required to present their data.

As OneData evolved into a Business-Critical reporting platform we required a dedicated support and development team and Procurement [REDACTED] was initiated to [REDACTED] procure these services.

Having initially developed the platform internally the procurement of external services was determined to be the most expedient direction to take, rather than onboard more expensive UK resources, and given this would have impact day-to-day IT support activities otherwise. Utilising an external resource also enables DCC to flex the number of development resources downwards once the platform is productionised and fully operational.

#### Securing Value for Money

This activity was planned last year and in our business plan. The budget was originally in the CFO budget before being transferred to the Enterprise IT budget. Capita was selected as the primary sources of data are owned and managed or hosted by Capita (Workday, SAP, and BPC). To involve another third party to create these links would have doubled the costs as Capita would have to have been contracted to provide the access. Once these elements were in place, the future development and support could be outsourced, and we conducted the [REDACTED] sourcing. A [REDACTED] procurement process was followed to identify a supplier who could provide skills and knowledge that the DCC does not have. Vendors were identified through a combination of web-based research and existing knowledge. The selected list was a combination of small, medium, and large companies to understand the best way to obtain value-for-money.

Supplier submissions were evaluated on both commercial and technical grounds. One submission was deemed to be significantly under-priced.

Table 18: Summary of procurement

Procurement – Enduring Power BI and One Data Hub Support	
Number of Initial invitations to tender	
Number of Bids received	
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	

### 1.7.7. Integrated Activity Planning [REDACTED]

This section covers the costs associated with the appointment of [REDACTED] to support the initial set up of DCC's Enterprise Planning capability as well as supporting DCC in building that internal capability to deliver enduring processes. This work started in RY22/23 when [REDACTED] were appointed. The Enterprise Planning team have built new processes to ensure that, at the point of initiation, key activities of the business are fully interlocked across functions and support the overall strategic outcomes of the business. This new centralised function also ensures the overall portfolio of activities is properly prioritised and sequences to provide assurance over deliverability. The Enterprise Planning processes include a new "Front Door" process that challenges and triages new activities being brought into the business prior to being accepted into the overall Enterprise Plan. The scope of this process covers all activities of the business, including:

- Key Programme Activities
- Internal Change Activities
- Major new re-procurement activities

#### Driver for the

DCC has traditionally been very focussed on the delivery of external programmes, which it has done successfully. However, as the organisation matures, DCC has experienced problems of coordination across a wider range of activities, with external programmes conflicting with operational and maintenance activities, and a growing need for organisational change. The lack of a central, enterprise-wide planning function has led to the overall enterprise plan being effectively undeliverable, due to activities not being interlocked across functions, and not being appropriately sequenced. This leads to a higher delivery risk, the potential for reputational damage and adverse impacts on employee engagement and burnout.

### Enterprise Planning is separate from BAP and Lock

The Enterprise Planning process does NOT do financial governance, this is provided by the DCC Lock process and is where activities gain approval to commit resources on to an activity. The Business Planning / Lock process was developed as part of the Business Accuracy Programme and was intended to create and operate processes and governance for financial approvals and increase DCC's ability to accurately forecast spend.

The Enterprise Planning work is complementary to this, but is separate and distinct, sitting under a different Director within the CFO Function. Enterprise Planning is focussed on planning for, and controlling the initiation and delivery of changes with a focus on the activities required.

### Need for external providers to support this new capability

The Integrated Activity Planning work supported by [REDACTED] covers the initial set up of this Enterprise Planning capability, as well as supporting DCC in building the internal capability to deliver enduring processes. The Enterprise Planning team did not exist prior to the creation of this project and DCC did not have these skills in house – [REDACTED] were brought in to support the newly appointed Enterprise Planning Director in developing a new process framework and a new set of planning tools. This built on and leveraged work previously done in the Portfolio Office within Service Delivery, which supported a narrower portfolio of change. [REDACTED] provided this support in parallel to the recruitment and development of the new in-house team who the work has now transitioned to as an enduring function within the EPMO.

## **Securing Value for**

### Sourcing Approach

DCC decided that [REDACTED] procurement with [REDACTED], a supplier on DCC's competitively appointed Consultancy Framework was the preferred approach to ensure the urgent provision of the necessary capability and capacity.

[REDACTED] have a deep understanding of DCC and have been heavily involved in designing and implementing our current Annual Business Plan and quarterly lock process, which this work complements. Appointing a different consultancy to support us in this activity would be likely to result in a longer time for onboarding and understanding of the issues which would result in an increase in costs and would also require more time from internal DCC staff. We are confident through discussions on the assignment that [REDACTED] will bring a number of learnings from some of the previous projects they have successfully completed such as:

- Operations Planning
- Business Planning and Lock Process
- Lifecycle Management Programme
- Project [REDACTED]

### Resources

There is some consistency of resources with prior experience of these projects at Smart DCC including BAP (and within that lock), Operating Processes, and Operations planning. In addition, there are new resources with specific skills which meet the requirements of this engagement.

### Benchmarking

We have benchmarked the day rates being charged by [REDACTED] and we are happy that they are competitive against framework rates held with other consultancies.

The commercial scoring has been compared to several suppliers who are able to offer a similar service from Lot 1 of the consultancy framework, at the same level of resource.

Table 19: Benchmarking

Name	Comparable Cost	Total Score %	Ranking
			1
			2
			3
			4

### Activities in RY23/24

The scope of the activity planning looked at all activity that DCC was planning to do within our current Business Plan and other items that are in the pipeline. It covered the following areas:

- Mandated programme activity - e.g., 4G, SECMOD, DSP, MHHS, ECOS etc.
- Core service updates - e.g., Tech Refresh, Firmware Updates
- Risk mitigation plans - e.g., Continuity of Service risks, OPR risks, customer / supplier risks.
- External contract pipeline - renewal and/or procurement.
- New capabilities / product / services pipeline
- Internal transformation activity

### 1.7.8. Legal Advice - Price

#### Driver for the

This is advice related to the DCC's annual Price Control consultation.

During the Price Control consultation process for RY22/23, DCC required specialist regulatory input from external lawyers to help address the various disallowances proposed, many of which were not of a nature raised in previous Price Control consultations. That input was distilled in Annex 2 of DCC's consultation response and embodied throughout.

While DCC does not yet know the nature or extent of disallowances that Ofgem may propose in its RY23/24 consultation, DCC reasonably expects requiring similar external input to aid the preparation of its consultation response within the limited timescales provided.

The Price Control consultation process occurs once a year and, while it requires a significant amount of legal input, the specialist expertise is required over a relatively short period of time. Accordingly, retaining that expertise in-house on a full-time basis cannot be justified, and it is instead necessary to procure externally as and when the need arises.

#### Securing Value for

The issues concerning licence renewal and price control are interrelated, and as such the best value for money could be achieved by appointing [REDACTED] as DCC's external advisor in relation to price control. This allows DCC to leverage benefits and efficiencies from [REDACTED] work on licence renewal.

## 1.8. External Services -

This section explains the forecast changes in external services costs from the last price control period. Key areas include CRM management, charging and legal advice. The following sections will detail the reasons for cost changes in each of these areas.

**Table 20: Forecast external Services**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement Type
Audit/assurance	ES	£m	0.144	0.112	0.346	
CRM Management Fee	ES	£m	0.110	0.176	0.177	
██████████ - Customer Charging Mechanism	ES	£m	0.129	0.229	-	
Legal Advice	ES	£m	0.149	0.450	0.100	
Legal Advice - ██████████	ES	£m	0.070	0.200	-	
Pay and Reward	ES	£m	-0.163	-0.039	0.263	
People - HR consultancy	ES	£m	-0.106	0.131	0.474	
Staff Training	ES	£m	-0.014	-0.122	0.575	
FSM Legal Advice	ES	£m	-	0.210	-	
Legal Advice - New MSA	ES	£m	0.028	0.500	-	

We have explained the material variances in the sections below. Where our GL groupings also include small, individual line items that do not amalgamate to £150k, we have excluded these items from the following sections.

### 1.8.1. CRM Management Fee

This is our annual CRM fee for our Recruitment Process Outsourcing supplier Peregrine. We use this supplier to recruit all roles below Executive level for permanent and contractor positions.

This CRM is due for retender in RY24/25 and we anticipated costs will increase for RY24/25 as part of our Annual Business Plan, which takes the value above £150k. Since then, we have requested a one-year extension at the current price and will re-tender in preparation for RY25/26.

### 1.8.2. ██████████ - Customer Charging

The procurement of ██████████ for the Customer Charging Mechanism was initiated to reassess and reform DCC's charging policy, which has remained unchanged since the establishment of DCC over ten years ago.

#### Driver for the

The need for this activity was identified due to the maturation of the smart metering rollout and increasing network use by various user groups. Although not explicitly forecast last year, the necessity became evident due to rising traffic and demand for reforms. SEC members requested DCC to conduct this comprehensive analysis to ensure effective charging mechanisms. In particular, energy suppliers (DCC Users) were tabling SEC modifications that required a review of our charging policy.

Failing to undertake this work could lead to unmanaged peaks in network traffic, inefficiencies in cost recovery, and potential disruptions to the energy market and DCC user community.

The long-term plan involves reducing reliance on external consultants by enhancing internal capabilities through the establishment of a virtual charging team within DCC.

Before deciding on procurement, DCC considered internal reviews and other consultancy options. However, the lack of in-house expertise and the need for an independent, comprehensive analysis led to the decision to engage ██████████



Extensive customer engagement was carried out to gather support and feedback, ensuring that the reforms align with customer expectations and regulatory requirements.

### Securing Value for

██████████ was selected through a ██████████ process in 2023. The contract reference number is ██████████

The evaluation process focused on both cost and quality. Although ██████████ was not the cheapest option, their expertise and the quality of their proposed methodology justified their selection.

██████████'s initial quote for the next phase of work was £██████████, which was negotiated down to £██████████ by reverting to 2023 hourly rates.

The contract includes provisions for extensions to ensure comprehensive coverage of the consultation process. These extensions are structured to maintain cost efficiency and achieve the desired outcomes.

Plans are in place to assess the benefits of this procurement post-completion, focusing on the effectiveness of the charging reforms and their impact on network demand management.

### 1.8.3. Legal

Ongoing investment in the legal team aims to transform the legal function and establish a robust legal infrastructure for quicker and more efficient delivery in the coming years. This includes:

- Designing and implementing tailored precedents and guidance notes for a comprehensive suite of contracts, fostering a more systematic and cohesive approach to contracting.
- Defining DCC's stance on key risk issues and setting parameters for business negotiations to enhance contract governance, empowering stakeholders and getting more data analytics around contracts to help increase speed to contract, and understand problem areas.

Additionally, budget allocation is provided for smaller projects and ad-hoc support, such as specialist employment advice for industrial disputes, privacy and security guidance, fiduciary duties, and more.

### 1.8.4. Legal Advice ██████████

This involves helping to ensure ██████████ discharges its obligations pursuant to the ██████████ SMETS1 services contract; and ii) helping to put DCC in a better position should ██████████ breach that contract.

### Driver for the

This work cannot be undertaken in-house because it requires specialist legal disputes expertise.

██████████ continues to pose material financial, legal, software, infrastructure, practical and reputational risks to DCC, and DCC has determined that it needs ongoing external support in those regards.

DCC is considering, on an ongoing basis, strategy relating to the deployment of DCC's rights and remedies – and associated risks – under its contract with ██████████. This involves a combination of internal and external resource, including obtaining specialist legal advice on ██████████'s contractual (and other legal) obligations and performance of the contract, including but not limited to contractual audit and monitoring mechanisms. This advice is itself informed by other banking and foreign law advice given in the same dispute's context. Our external lawyers are also advising on inter-partes correspondence with ██████████ to protect and promote DCC's position and providing strategic legal input for commercial and/or without prejudice discussions.

### Securing Value for Money

These services were provided pursuant to a Call-Off Contract under the DCC Legal Framework (which was put in place following a ██████████ process).

Two, out of the five, law firms on the DCC Legal Framework Panel were conflicted and could not act for DCC on this matter. DCC selected ██████████ to provide this advice given their experience in advising on technology contracts and disputes, and we have negotiated a discounted rate card for senior Partner expertise.

### 1.8.5. FSM Legal Advice (DSMS and FSM procurements)

DCC has sought external legal support in respect of the procurement of DCC's Future Service Management (FSM) solution, which comprises an ITSM tool and relevant connectors such as an API Gateway and IDP Hub. The FSM solution will be heavily customised to meet DCC's needs will need to be secure, scalable, extensible, and flexible to meet future demands and fulfil DCC's licence obligations.

#### Driver for the

Technically this procurement is an extension of the DSP legal procurement (mentioned in the DSP chapter). The new FSM solution is a key dependency for DSP. It is being run separately from DSP Core as implementation of the new FSM solution needs to take place ahead of the work on DSP Core. Accordingly, all of the drivers for the procurement of external legal resource are equivalent to those mentioned above on DSP. The external legal team supports the design and negotiation of the contracts.

#### Securing Value for Money

Given the challenging timeline for procuring and implementing FSM, and the level of interdependencies between FSM and DSP, the best value for money could be secured by appointing one of the two law firms from the DCC Legal Framework that were already engaged on DSP.

DCC issued a request for a quote to [REDACTED] and [REDACTED]. Following evaluation of the bids, including teach firms proposal on how it could best leverage efficiencies from its work on DSP, DCC appointed [REDACTED] as its advisor on FSM.

DCC has demonstrated that the cost for these services is in line or better than market: [REDACTED] provided a [REDACTED]% discount against the current agreed framework rates in line with its pricing on DSP.

**Table 21: Summary of procurement approach**

Procurement – FSM legal advice	
Number of Initial invitations to tender	[REDACTED]
Number of Bids received	
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	

### 1.8.6. Legal Advice – New MSA

To this point, DCC had used the old Enduring Agreement contract template (i.e. template for current MSA) to contract with key vendors to DCC. However, DCC's supply chain complained that this was complex and lengthy and drove longer procurement times, more cost to DCC, and potentially the addition of risk premia into pricing proposals. The Enduring Agreement contract template was considered to be overly onerous in terms of risk positions and again driving risk premia into pricing, and risk dissuading smaller/niche vendors from engaging with DCC.

In that light, DCC's goal was to create a new MSA which seeks to address that feedback, and which reflects a proportionate and balanced approach given the nature of the DSP services, DCC's proposed sourcing model and strategy, and its operating environment.

## Driver for the

The primary driver for this procurement was capability. DCC's in-house legal team had lived with the old Enduring Agreement for a number of years. It now required a fresh perspective and approach in order to address the limitations and feedback described above. It required a law firm with deep expertise in large scale procurements in the sector, the market and regulatory framework in which DCC operates, so as to deliver a new MSA which is fit for DCC's future needs.

## Securing Value for

These services were provided pursuant to a Call-Off Contract under the DCC Legal Framework (which was put in place following a [REDACTED] process).

DCC issued a further RFP to all (then) four law firms on the DCC Legal Framework and, following a clarifications questions process, received responses from all four firms.

The further procurement process consists of four stages:

1. The submitted proposals have been evaluated and scored against the agreed evaluation criteria which included quality and commercial. A financial stability check has also been carried out against bidders.
2. Following the evaluation of the submissions, DCC invited all bidders to attend interviews at Ibex House in London. Interviews were carried out by DCC Legal.
3. Further evaluation, scoring and moderations sessions were held where the highest scoring bidder was identified.
4. Award and Contract Signature.

**Table 22: Summary of procurement**

Procurement – New MSA	
Number of Initial invitations to tender	[REDACTED]
Number of Bids received	
Number of Bids shortlisted / presenting	
Strengths of Selected Bidder	
Challenge by DCC	

## 1.8.7. RY25/26 forecasts

No baseline has been set for RY25/26 across four cost items, therefore all costs for these are showing a variant compared to the zero baseline. We forecast equivalent costs for RY24/25 and RY25/26, and are not proposing significant variations. We expect a small uplift where services relate to staff headcount, and where we have moved contractors to permanent staff.

We are continuing to review our forecast needs compared our current work for RY24/25.

**Table 23: Forecast costs where there are RY25/26**

Incurred	GL		RY24/25	RY25/26
Audit/assurance	ES	£m	0.332	0.346
Pay and Reward	ES	£m	0.199	0.263
People - HR consultancy	ES	£m	0.467	0.474

Staff Training	ES	£m	0.568	0.575
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# Operation

**Version: 1.0**

**Date: 31.07.2024**

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# 1. Operations Cost

## Summary

### What is this and why is it important?

Our Operations function provides early-life support for completed programmes as they transition from Contract to Market to Market to Retire, and the ongoing smooth running of these services throughout in life operations.

For existing services, it manages and delivers in-life changes, such as Smart Energy Code (SEC) releases, focused on minimising disruption, improving our efficiency and ensuring service provider performance. In RY23/24 we continued to achieve very high service availability and exceeded our operational targets. We also received strong customer engagement scores.

Operations provides a single point of contact for all our customers, supporting their onboarding to the service, incident management and resolution, and the support for smart meter rollout planning.

### RY23/24 activities and costs

Total internal costs were £26.2m (with a variance of £7.7m to the Ofgem baseline). The main variances are in payroll, and external services. This was due to three main reasons:

Some forecast costs from RY22/23 were disallowed resulting in a low baseline - we have provided a fuller explanation of these costs in our submission this year. The use of time sheets and recharging of colleagues to their internal programme resource cost centres is a more transparent way of reporting but does not have a like-for-like baseline from last year's submission.

A more competitive labour market for specialist capabilities has resulted in permanent vacancies taking longer to fill than anticipated (driven by a highly competitive recruitment market). In order to protect customers from potential service disruption we have retained contractors where critical.

The In-life Change team (28 FTE) has moved to Operations from Service Delivery, representing a large increase in payroll in the function (but neutral for DCC overall).

The function continues to deliver strong performance whilst our network continues to grow in scale and complexity. We maintained network availability at over 99%, supported over 2 billion messages per month, reduced the number of major incidents by 8% since March 2023, and supported over 30 million meters across the UK.

We hold regular engagement sessions with our customers and, in RY23/24, implemented a high-level escalations process which allows us to manage complaints from customers and other interested parties, such as Members of Parliament, in a professional and timely manner.

Since the Central Switching Service went live in July 2022, we have delivered strong operational performance (99.8% success rate through to May 2024). As required by the Retail Energy Code (REC), we now operate a separate Switching Service Desk, and have supported over 26.4 million switch requests since go live.

### Future activities and costs

We are maintaining our focus on performance for RY24/25 and beyond as we continue to adopt further enduring services, such as Market wide Half Hourly Settlement (MHHS) and 4G Communications Hubs (CH) and deliver our twice-yearly SEC Releases.

This increase in the number and scale of enduring services we support means we are forecasting a slight increase in payroll costs to £22.8m in RY24/25, but a reduction in external services spend to £2.0m as we drive efficiency in our resourcing at DCC.

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the programme purpose and our resource and non-resource costs.

#### Programme variance by GL

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

Baseline			RY23/24	RY24/25	RY25/26
<b>Total Operations</b>		<b>£m</b>	<b>18.467</b>	<b>17.695</b>	<b>0.000</b>
Payroll costs	PR	£m	14.634	13.655	0.000
Non-payroll costs	NP	£m	0.434	0.437	-
Recruitment	RC	£m	0.078	0.012	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.819	0.819	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	2.284	2.554	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.218	0.218	-
Office Sundry	OS	£m	-	-	-
<b>Incurred</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Total Operations</b>		<b>£m</b>	<b>26.207</b>	<b>27.177</b>	<b>22.215</b>
Payroll costs	PR	£m	19.932	22.761	18.694
Non-payroll costs	NP	£m	0.555	0.176	0.117
Recruitment	RC	£m	0.131	0.003	0.001
Accommodation	AC	£m	-	-	-
External services	ES	£m	3.755	1.954	1.055
Internal services	IS	£m	-	-	-
Service management	SM	£m	1.615	1.929	2.044
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.218	0.354	0.304
Office Sundry	OS	£m	-	-	-
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Total Operations</b>		<b>£m</b>	<b>7.740</b>	<b>9.483</b>	<b>22.215</b>
Payroll costs	PR	£m	5.298	9.107	18.694
Non-payroll costs	NP	£m	0.121	-0.261	0.117
Recruitment	RC	£m	0.053	-0.009	0.001
Accommodation	AC	£m	-	-	-
External services	ES	£m	2.936	1.135	1.055
Internal services	IS	£m	-	-	-
Service management	SM	£m	-0.669	-0.625	2.044



Transition	TR	£m	-	-	-
IT Services	IT	£m	0.000	0.136	0.304
Office Sundry	OS	£m	-	-	-

### Programme Variance by Sub-Team

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

**Table 1: Cost centre variance by sub-**

Baseline			RY23/24	RY24/25	RY25/26
<b>Operations Payroll Costs</b>		<b>£m</b>	<b>14.634</b>	<b>13.655</b>	<b>-</b>
Core Operations		£m	3.628	3.628	-
Customer Relationship Management		£m	1.088	0.066	-
Data Analytics and Strategic Operations		£m	4.147	4.147	-
In Life Supplier Management		£m	1.492	1.480	-
Product & Logistics		£m	1.598	1.689	-
Service Assurance		£m	2.681	2.645	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Operations Payroll Costs</b>		<b>£m</b>	<b>19.932</b>	<b>22.761</b>	<b>18.694</b>
Core Operations		£m	2.415	2.126	2.348
Customer Relationship Management		£m	1.652	1.540	1.700
Data Analytics and Strategic Operations		£m	5.721	4.749	5.310
In Life Supplier Management		£m	0.935	1.208	1.225
Product & Logistics		£m	1.795	1.371	1.548
Service Assurance		£m	1.642	2.631	2.760
In Life Change		£m	0.199	1.417	0.572
SEC Releases Programme Resource		£m	3.141	4.859	1.617
Operational Change Programme Resource		£m	1.487	1.812	0.879
Scaling & Optimisation Programme Resource		£m	0.183	0.041	-
Commercial SMETS2 Extension Programme Resource		£m	0.153	0.205	0.120
Capacity Programme Resource		£m	0.133	0.802	0.614
3G Sunsetting Mitigation Programme Resource		£m	0.156	-	-
Future Connectivity Programme Resource		£m	0.235	-	-
Reporting & Monitoring Programme Resource		£m	0.086	-	-
Variance			RY23/24	RY24/25	RY25/26
<b>Operations Payroll Costs</b>		<b>£m</b>	<b>5.298</b>	<b>9.106</b>	<b>18.694</b>
Core Operations		£m	-1.213	-1.502	2.348
Customer Relationship Management		£m	0.564	1.474	1.700
Data Analytics and Strategic Operations		£m	1.574	0.602	5.310
In Life Supplier Management		£m	-0.557	-0.272	1.225

Product & Logistics	£m	0.197	-0.318	1.548
Service Assurance	£m	-1.039	-0.014	2.760
In Life Change	£m	0.199	1.417	0.572
SEC Releases Programme Resource	£m	3.141	4.859	1.617
Operational Change Programme Resource	£m	1.487	1.812	0.879
Scaling & Optimisation Programme Resource	£m	0.183	0.041	-
Commercial SMETS2 Extension Programme Resource	£m	0.153	0.205	0.120
Capacity Programme Resource	£m	0.133	0.802	0.614
3G Sunsetting Mitigation Programme Resource	£m	0.156	-	-
Future Connectivity Programme Resource	£m	0.235	-	-
Reporting & Monitoring Programme Resource	£m	0.086	-	-

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and

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

Operations provides a single point of contact for all our customers, supporting their onboarding to the service, the incident management of issues through to resolution, and the support for smart meter rollout planning. We are committed to actively engaging with stakeholders, responding appropriately to customers' needs. We also design the services and operational processes for DCC enterprise and total systems, working with industry and service providers to address debt and underpin future capabilities and efficiencies.

The teams ensure that DCC continually improves its operational stability and performance, while maintaining security and delivering the additional functionality requested by, and agreed with, our customers and stakeholders. Operations is therefore critical to ensuring we meet our core licence obligation of a secure, reliable, stable, and resilient network.

Operations aims to do this by following six key principles:

1. Never go dark and never fail a prepay vend.
2. Be right first time.
3. Simplify the complex and streamline processes for all our customers.
4. Provide a highly automated, digital self-service experience which will always be secure.
5. Drive all initiatives from the customer perspective.
6. Be vigilant, eyes always on with clear visibility of service across the whole system.

### 1.2.1. Scope

Operations provides the assurance functions to ensure our Service Providers deliver the quality of service to DCC's SEC Parties, against contractual Key Performance Indicators (KPIs). Operations contains the following functions:

- Service Operations – this contains the functions known in RY22/23 as Data Analytics and Strategic Operations, and Core Operations.

- Operational Change and Transition- this was previously known as Service Assurance, and which now also includes the In-life Change function which was in Service Delivery prior to November 2023.
- In Life Supplier Management.
- Customer Relationship Management, which includes servicing Distribution Network Operators (DNO) and Other Users.
- Product & Networks, known in RY22/23 as Products and Logistics.

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

- Deliver reliable and repeatable service, at scale.
- Report operational performance to our Customers and Regulatory Parties.
- Supporting our focus on customers by providing real world information on their experiences.
- Support the prioritisation of activity and development effort for DCC through customer insight, process measurement, and industry engagement.
- Improve the solutions proposed by DCC through early and effective engagement in the design process.

### Key events and objectives driving activity and cost.

Table 2 below shows DCC Operation's key objectives for the last financial year and the activities completed to deliver these.

**Table 2: Operations 12-month objectives**

Key Objectives	Activities	Benefits realised
Delivering a reliable, right first-time service	<ul style="list-style-type: none"> <li>• Improve supplier performance, focusing on key supplier relationships.</li> <li>• Delivery of our key programmes – including ECOS.</li> <li>• Finish SMETS1 migrations and transition to a reliable service.</li> </ul>	<ul style="list-style-type: none"> <li>• We are maintaining network availability at 99.5%.</li> <li>• Supporting over <b>2 billion messages</b> per month - 750 million more messages per month than March 2023.</li> <li>• During FY23/24 we delivered 3.7k changes at 98% success rate, whilst reducing our major incidents by 8% since March 2023.</li> <li>• We are now supporting over 30 million meters on our network (compared to 1m in 2019, a significant ramp up in system capacity).</li> </ul>
Investing in our people, technology, and processes	<ul style="list-style-type: none"> <li>• Create capability by developing our people.</li> <li>• Development of our data strategy.</li> <li>• Delivering next generation Technical Operations Centre (TOC) and Service Centre.</li> </ul>	<ul style="list-style-type: none"> <li>• Improvements in Customer journey tracking.</li> <li>• Increased people engagement scores, with eNPS at +14.</li> <li>• Delivering investments in our technical operations centre with increase network monitoring capability.</li> <li>• Implementing the data strategy, moving towards Cloud data storage, and increasing our data capability.</li> </ul>
Collaborative customer and partner outcomes	<ul style="list-style-type: none"> <li>• Developing the high-level escalations strategy.</li> <li>• Driving value through improved industry insight.</li> </ul>	<ul style="list-style-type: none"> <li>• Above target customer effort scores.</li> <li>• Improving our relationships with customers, including our DNOs and other users.</li> </ul>

- 'Never fail a pre-pay' mindset.

### 1.2.2. Cost Centre Structure

Figure 1 – Cost centre organisational



Our Cost Centre Structure and its capabilities are as follows. The table below provides the overview of the Operations cost centre during RY22/23 and a description of the teams within the structure.

Table 3: Description Per Sub-team

Sub-team structure RY22/23	Sub-team structure RY23/24	Description
Data Science & Analytics	Data Analytics & Strategic Operations	Data Analytics (also known as Data Science and Analytics (DS&A)) DS&A produce and provide internal and external stakeholders with multiple services including: <ul style="list-style-type: none"> <li>• Mandated reporting and commentary.</li> <li>• Non-mandated reporting and analytical capabilities.</li> <li>• Underpin data requirements for DCC and wider industry issues such as to support incident and problem management.</li> <li>• Build and deploy capabilities to support the services provided by DCC to manage our licence obligations.</li> <li>• Build and model scenarios to underpin the OPR regime.</li> </ul>
Strategic Operations		Strategic Operations Strategic Operations leads on pan-Operational activities on behalf of the COO and Senior Leadership Team (SLT), and contains three main functions: <ul style="list-style-type: none"> <li>• Risk and Compliance Management – managing functional and enterprise risk mitigation, issues management and assuring compliance against corporate risk management frameworks.</li> <li>• Financial Management – managing operational budget planning and forecasting, financial reporting, business accuracy, resourcing strategy and cost efficiencies.</li> <li>• Executive Reporting – acting as office of the COO, it leads on reporting into the board, Executive Committee (ExCo), Operations Committee (OpCo) and SLT and providing business management support.</li> </ul>

Service Assurance	Operational Change and Transition (OCAT)	<p>OCAT designs the Operational ways of working and the supporting processes, as well as taking Programmes into business as usual status, for example SMETS1 migrations, Switching, and Enduring Change of Supplier (ECoS).</p> <p>The key purpose of OCAT is "To shape &amp; protect Customer Service and Operations". Key functions include:</p> <ul style="list-style-type: none"> <li>• Service Introduction &amp; Acceptance (Business Acceptance Testing, and Service Introduction and Acceptance).</li> <li>• Service Architecture and knowledge (Service Architecture, Knowledge, eLearning, and Training).</li> <li>• Service Governance (Quality, Assurance, Risk, and Demand).</li> <li>• In Life Change (Delivery of Change and Maintenance to existing Products and Services).</li> </ul>
Core Operations	Service Operations	<p>The Service Operations team are accountable for ensuring that the SMETS and Switching service is available and reliable by:</p> <ul style="list-style-type: none"> <li>• Operating a 24/7, year-round frontline Service Centre, providing support to Customers throughout the full lifecycle of their interactions with the DCC.</li> <li>• Offering second line support through a dedicated Incident Management team who act as the primary escalation point for restoring service during a major incident.</li> <li>• Preventing repeat occurrences of incidents by performing robust Information Technology Infrastructure Library (ITIL) problem management processes and ensuring all major incidents have root causes.</li> <li>• Monitoring DCC networks 24/7, year-round to ensure traffic is flowing as expected and investigating any variations so that Incidents are identified and raised at the earliest point.</li> <li>• Controlling and scheduling all internal changes across the entire service provider ecosystem to ensure they are successfully deployed through release management without causing unplanned outages.</li> <li>• Driving the successful enrolment and adoption of SMETS1 meters onto the DCC network across many accountable parties and complex processes.</li> <li>• Continually improving customer journeys through providing insights and support to Customers to drive improved performance of end-to-end processes (such as prepayment).</li> </ul>
In Life Supplier Management	In Life Supplier Management	<p>The In Life Supplier Management team is accountable for ensuring suppliers operate and perform in line with their contractual obligations, including:</p> <ul style="list-style-type: none"> <li>• Operational performance management governance routines.</li> <li>• Performance recovery plans (where required).</li> <li>• Supplier performance reporting – monthly and annual reports.</li> <li>• Supplier service delivery risk management and risk mitigation.</li> <li>• Financial responsibility for all operational suppliers' run costs, accounting for around █████ m of spend per annum. This includes financial forecasting, finance controls, and budget reconciliation and invoice payment.</li> <li>• Supplier risk management and risk reporting across the supply chain.</li> <li>• Change management oversight for any supplier impacting change, both process and contractual (not commercial or procurement).</li> </ul>
Customer Relationship Management	Customer Relationship Management	<p>This team plays a crucial role at the forefront of all service-related customer engagements, effectively being the voice of the customer, as well as being the voice of DCC. This team drives service improvements and helps maintain the focus on consumer benefits. The team has three key functional capabilities:</p>

		<ul style="list-style-type: none"> <li>• Retail Service Management (Energy Suppliers).</li> <li>• Non-Retail Service Management (DNOs &amp; Other Users).</li> <li>• Customer Journey/Experience Management (customer complaints, customer effort, onboarding, and so on).</li> </ul> <p>The team is accountable for driving customer experience, service improvement, customer advocacy, and strategic customer engagement.</p>
Product & Logistics	Product & Networks	<p>The Product and Networks team is accountable for the timely supply of Communication Hubs (CHs) to our customers, in-life ownership of Firmware, Network Demand Forecasting, and Capacity Management:</p> <ul style="list-style-type: none"> <li>• Manage the forecasting and ordering of CH variants from different suppliers aligned to agreed deliver dates</li> <li>• Development of Supply Chain to meet the global market challenges and evolution of DCC product portfolio, for example, the introduction of new 4G CHs..</li> <li>• Assurance of the End-to-End (E2E) lifecycle for existing and future products &amp; firmware.</li> <li>• Shaping and influencing of future programmes to deliver best in class solutions and support continuous improvement.</li> </ul> <p>The Demand and Capacity management team are accountable for:</p> <ul style="list-style-type: none"> <li>• Ensuring that DCC has the right network capacity, in the right place, and at the right time, to service agreed demand from users and industry.</li> <li>• Regular bilateral engagement with DCC Users, to understand their plans and how they will impact future demand forecasts.</li> <li>• Reviewing assumption outputs with SEC Operations Group (OPSG) each quarter for endorsement.</li> <li>• Producing of quarterly demand forecasts for all DCC Suppliers, and assessment of the risk profile.</li> <li>• Capacity Assurance working with DCC Suppliers, to ensure demand growth can be met, and in the timeframes that have been forecast.</li> <li>• The Network Traffic Management portfolio of activity focused across three themes of Traffic Optimisation, Process Optimisation, and Traffic Prioritisation.</li> </ul>
n/a	Lifecycle Management	<p>The lifecycle management team is a new function within Operations, as we develop our Service Families and transition into a product focused organisation. The team currently comprises just three resources: a manager and two Senior Service Lifecycle owners. The team are currently focused on the Smart Energy service portfolio and, within it, two Service Families:</p> <ul style="list-style-type: none"> <li>• SMETS1 – developing a long-term Roadmap including strategies and business cases for end-of-life planning.</li> <li>• Connectivity – developing alternative connectivity technologies for the Smart Metering network.</li> </ul> <p>As the team evolves it will take on the following core responsibilities:</p> <ul style="list-style-type: none"> <li>• Leading the service development lifecycle for a Service Family working cross-functionally to deliver services that meet regulatory requirements, customer needs and drive smart metering growth.</li> <li>• Develop and execute the service strategy defining the long-term plans and goals aligned to the DCC Business and Development plan.</li> <li>• Oversee the service lifecycle from concept to retirement, including end-of-life decisions and transition plans.</li> <li>• Support the transition to an Ex-Ante budgeting approach.</li> <li>• Collaborate with the Technology function to develop and maintain the underpinning technical Roadmap(s).</li> <li>• Collaborate with the Commercial function to oversee the contract pipeline for their Service Family and the long-term commercial strategy to ensure value for money.</li> </ul>

- Collaborate with the Operations teams to define and implement the in-life service model and performance requirements.
- Work closely with the Customer and Regulatory teams to manage external stakeholder needs.
- Represent DCC at key external forums.

### 1.3. Cost centre variances

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

**Table 4: Variance from the RIGs by GL**

	Total Operations			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Operations</b>		£m	18.467	17.695	0.000
<b>Total Incurred</b>	<b>Total Operations</b>		£m	26.207	27.177	22.215
<b>Total Variance</b>	<b>Total Operations</b>		£m	7.740	9.483	22.215
	Payroll costs	PR	£m	5.298	9.107	18.694
	Non-payroll costs	NP	£m	0.121	-0.261	0.117
	Recruitment	RC	£m	0.053	-0.009	0.001
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	2.936	1.135	1.055
	Internal services	IS	£m	-	-	-
	Service management	SM	£m	-0.669	-0.625	2.044
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	0.000	0.136	0.304
	Office Sundry	OS	£m	-	-	-

#### Payroll Costs

The overall payroll costs variance is £2.157 million in RY23/24 across a total of fifteen cost centres. This is largely driven by zero baselines for the programme resources, which are newly being reported separately due to our time sheeting mechanism, and therefore have no set baseline. Other variances are driven by the move of the In-Life Change team to Operations, and the extension of essential contractors in Data Analytics and Strategic Operations. Accordingly, this year we have explained the material variances and each team's role, purpose, and activities.

#### Variance by Sub-

The table below outlines the variances by sub-team. The following sections describe the reasons for the variances.



**Table 5: Cost centre variance by sub-**

Variance			RY23/24	RY24/25	RY25/26
<b>Operations Payroll Costs</b>	<b>£m</b>		<b>5.298</b>	<b>9.106</b>	<b>18.694</b>
Core Operations	£m		-1.213	-1.502	2.348
Customer Relationship Management	£m		0.564	1.474	1.700
Data Analytics and Strategic Operations	£m		1.574	0.602	5.310
In Life Supplier Management	£m		-0.557	-0.272	1.225
Product & Logistics	£m		0.197	-0.318	1.548
Service Assurance	£m		-1.039	-0.014	2.760
In Life Change	£m		0.199	1.417	0.572
SEC Releases Programme Resource	£m		3.141	4.859	1.617
Operational Change Programme Resource	£m		1.487	1.812	0.879
Scaling & Optimisation Programme Resource	£m		0.183	0.041	-
Commercial SMETS2 Extension Programme Resource	£m		0.153	0.205	0.120
Capacity Programme Resource	£m		0.133	0.802	0.614
3G Sunsetting Mitigation Programme Resource	£m		0.156	-	-
Future Connectivity Programme Resource	£m		0.235	-	-
Reporting & Monitoring Programme Resource	£m		0.086	-	-

## 1.4. Drivers for Variance – Resource

### 1.4.1. Customer Relationship

The customer relationship management team is responsible for delivering the engagement strategy and leading the customer experience/improvements. This team plays a crucial role at the forefront of all service-related customer engagements, effectively being the voice of the customer, as well as being the voice of DCC. This team has been critical in improving key customer journeys including the 3% total improvement to Prepay performance

The team is the frontline interface for Operations, whilst supporting wider DCC/External forums in mitigating current known issues. The team have three key functional capabilities:

- Retail Service Management (energy suppliers)
- Non-Retail Service Management (DNOs & Other Users)
- Customer Journey/Experience Management (customer complaints, customer effort, onboarding, etc)

The team is accountable for driving customer experience/service improvement, customer advocacy and strategic customer engagement – building relationships with key customers, managing their experience, and ensuring issues are resolved promptly.

Within this team we monitor and report on customer effort and sentiment. This insight is vital to support the customer engagement evidence criteria within OPR.

### Activities driving change in resource in RY23/24

The increase in resource costs is primarily due to the implementation of the High-level escalations team. This team consists of three manager-level roles and is responsible for managing complaints from all customers and end consumers, and regularly supports other interested parties such as members of parliament with Smart metering issues. In RY23/24, the team managed 645 complaints and 64 high level escalations. The team has had exceptional feedback from both industry, and consumers and MPs who have utilised this service to obtain smart meters where their energy supplier has been unable to provide one.

## Activities driving change in resource in RY24/25

There is no expected increase in the customer relationship management team headcount in RY24/25 or RY25/26. The team has recently undergone an organisational redesign, which will allow the senior managers in the team to increase their focus on our high-profile customers, and in improving the experience of the DNOs. The reason for a large variance is due to the disallowance of the forecast in the RY22/23 price control.

### 1.4.2. Data Analytics & Strategic Operations

The Data Science and Analytics (DS&A) team within Data Analytics & Strategic Operations is DCC's core data unit. The unit is responsible for the ingestion of data from our key strategic suppliers and services, building and maintaining DCC's data infrastructure, and reporting capability.

Across this year, significant efforts have been made to dramatically upgrade the technology underpinning the data infrastructure, with changes being made to data storage, reporting capabilities, and internal skills.

The team consists of 33 FTE, across data science, reporting analysts, strategy support on pan-operational activities and business intelligence resource.

## Activities driving change in resource in RY23/24.

The team delivered mandated, and value add reports to Service Users, Service Providers and regulators/other industry bodies, including 10,718 individual reports and delivering 131,800 individual outputs.

- SEC mandated: 735 delivered, 99.9 % within SLA.
- REC mandated: 48 delivered, 100% within SLA.

The team also delivered all data-related business requirements for both SECMODs and programme/project in FY 23-24, both new activities landing in the year, plus supporting in-flight work both post-production BAU and pre-production for activities landing in FY24/25. For example, during FY23-24, 25 SECMODS landed into production, additional requirements for industry reporting via SECAS & DESNZ also got delivered. ECOS programme went live, SMETS1 adoptions continued and ECOS SMETS2 migrations delivered on time.

The team also provide data for BAU internal operations around price control, KPI monitoring and capacity planning alongside all changes required for data ingestion; and all internal operational asks to support these activities, including:

- All data interface changes supported/tested/ETL updates delivered. (Six DSP interface Change Requests in RY23-24)
- Four new regulatory reports and changes to existing reports
- New tooling where required; maintain and update internal tools including operational tooling and dashboards and visualisations.

During RY22/23, organisational changes were made within the data team, which included:

- An organisational design programme, enabling the wider DCC data strategy.
- Increasing capability within the team to allow for long-term efficiencies.

This meant that five contractor FTEs, who were initially due to exit the business during RY22/23, were kept on as their specific skills and knowledge were needed to support the strategy. Specifically, their skillset was required to build and engineer datasets that enabled the transition between data platforms. Work is now ongoing into RY24/25 to reduce our reliance upon consultant and contractor staff and to create an enduring target operating model which is expected to create ~£1m of overall efficiencies during FY24/25 and beyond.

## Activities driving change in resource in RY24/25 and RY25/26

There are various changes expected because of moving data into the cloud, including the need for employees with this specific skillset. Work is underway to replace our consultant and contractor labour in this space with permanent employees, who will undertake Data Ops Engineering roles. They will be specifically tasked with streamlining our data workflows, pipelines, and architectures to bolster our advanced analytics, machine learning, and artificial intelligence efforts. These roles are vital in enabling quick access to insights, promoting a culture of continuous improvement, and driving innovation within our data practices. This will not only ensure our internal capability but allow our customers access to timely data analysis, supporting the ongoing monitoring of the network within our

TOC and reducing the number of incidents and network downtime. This will both reduce our overall resource costs, and by bringing data skills into the team will result in a net reduction in overall spend.

### 1.4.3. Product & Networks

The team is accountable for the supply of Comms Hubs (CHs) to our customers, in-life ownership of Firmware, Network Demand and Capacity Management.

#### Activities driving change in resource in RY23/24

##### CH Supply Chain

We supplied nine different CH variants, from three manufacturers in RY23/24 and the team worked closely with our suppliers and our customers to ensure 100% delivery success of nearly three million CH over that period. The team worked with our suppliers to mitigate challenges such as unrest in the Red Sea region that extended shipping timeframes and component obsolescence. They are working very closely with VMO2 and customers to plan for a transition of supply from 2/3G to 4G CH that is targeted to happen in H2 2025.

##### Firmware

The team are responsible In-Life CH Firmware, and that includes assurance of successful delivery into production. The team has championed cross supplier activity to improve the quality and Right First Time of firmware delivery, with Best Practice being established and rolled out following audits with each manufacture and CSP. We supported five new firmware deliveries into production, c. 20 million device upgrades, with no major incidents in production.

##### Demand & Capacity Management

The team are responsible for ensuring we have short-, medium- and long-term forecasts of network demand to enable our Service Providers to scale their networks appropriately and in a timely manner. New governance has been rolled out with industry via bilateral DCC User engagement and SEC Operations Group. We have also implemented new processes with our Service Providers for timely assessment of a longer-term forecast and actions they need to take to scale in a timely manner.

##### New Product & Change

The team are supporting the introduction of the new CH&N Programme that includes the new 4G CH and a new 4G Wide Area Network (WAN) provider, both of which will be product owned within the team. The team will provide in-life assurance and play an important role to ensure the new products are fit for purpose to enter production.

During RY23/24, all members of the Demand and Capacity team (five FTEs) moved from Core Operations and CTO to the Products and Networks directorate. The team are accountable for ensuring the DCC's Network Infrastructure is maintained and grows to meet future demand in a timely and cost-efficient manner. They also ensure the optimisation and traffic management capability of the network delivers customer needs driving efficiency of existing and future network traffic flows. The variance from forecast is due to this movement, with a reduction seen in the Core Operations resource costs.

### 1.4.4. Operational Change and Transition (Service Assurance and In Life Change)

Service Assurance and In Life Change combined to form OCAT (Operational Change and Transition) during 23/24.

The Service Assurance team work predominately on programme change activity, they are the team protecting Operations ensuring Service Architecture, Service Designs and Operational Testing and Acceptance are carried out to ensure a smooth transition to BAU without significant incidents and network downtime.

The In Life Change team, which moved from Service Delivery as part of Project Blue, are also part of the wider OCAT directorate, but do have a separate cost centre. They work in delivering in-life change into the business with roles aligned to Project and Programme management (~28 FTE) and ensure that any changes to live service (for example SEC Mods) are delivered in a timely and efficient manner, with strong governance and minimal impacts to live service.

#### Activities driving change in resource in RY23/24 and forecast years.

The negative variance in RY23/24 for Service Assurance is due to a reallocation of time using our new time sheet system to the programmes that this team support. This will not change the overall cost to DCC but instead more accurately aligns costs to the programmes. Refer to the Programme chapters and section 1.3.5 for more detail on our activities.

In November 2023 the 'In-life change' team of 28 FTEs were moved into Operations from Service Delivery, as part of the Project Blue programme of works intended to improve the delivery of in-life maintenance and change (for example, SEC releases). This team now sits within the OCAT directorate, and the resourcing is equivalent to previous years when budgeted in SD.

### Activities driving change in resource in RY24/25 and RY25/26

The positive variance for Service Assurance in RY25/26 covers the additional Transition and Testing required with the introduction of the new DSP and the complexity introduced with the need to parallel run. We have not yet allocated forecast resources to programmes, until we have certainty from each programme's needs and timings.

For In Life Change, some resources are allocated to programmes under section 1.4.5 below.

#### 1.4.5. RY25/26 forecasts

Across all our payroll teams, no baseline has been set for RY25/26. We have cost variances for four sub-teams that do not also have a variance in RY24/25. As shown in the table below, we forecast equivalent costs for RY24/25 and RY25/26, and are not proposing significant variations to the team headcounts or responsibilities.

Incurred		RY24/25	RY25/26
<b>Operations Payroll Costs</b>	<b>£m</b>	<b>22.761</b>	<b>18.694</b>
Core Operations	£m	2.126	2.348
In Life Supplier Management	£m	1.208	1.225
Product & Networks	£m	1.371	1.548
Service Assurance	£m	2.631	2.760

#### 1.4.6. Programme Resource

The following subsections cover the programmes delivered by the OCAT ILC team in Operations. The costs cover all functions across DCC working on these programmes, such as security and design & assurance. As we have newly implemented time sheeting, we can now present the costs for these programmes as separate line items.

##### 1.4.6.1. SEC Releases

DCC are required under the SEC to deliver two technical Releases a year in June and November and resources are required to deliver and transition into live Service the changes agreed through SECAS governance. GBCS is also delivered through this workstream.

### Activities driving change in resource in RY23/24

The costs were not historically broken down by programme, with the introduction of time-sheeting we can now accurately break out function costs and re-charge to programmes. The resourcing is equivalent to previous years when budgeted in SD.

Within this function, GBCS4.1 (the Comms Hub Firmware upgrade) has been running concurrently with the new GBCS4.2 delivery. Each GBCS delivery comprises three deliveries to incorporate all three manufacturers. Extensive testing, external engagements and a controlled phased rollout has been the core activity for GBCS4.1 whereas GBCS4.2 has centred on design work across all three workstreams with the build subsequently getting started. GBCS4.1 delivers a real step change in functionality to customers with Over the Air upgrade capability – meaning the requirement for physical site visits drastically reduces. Not only does this provide significant cost saving but also enables customers to be far more agile, delivering upgrades as soon as they are ready rather than staggered in line with site visit schedules.

This function has also delivered two SEC Releases across the year comprising of 4 Modifications. One was delivered in the November 2023 SEC Release that improved the transparency of DCC performance measurements for its customers. The remaining 3 were delivered as part of the June 2024 SEC Release and included the major milestone of introducing the Market Half Hourly Settlements (MHHS) new role functionality. This is part of the wider Ofgem programme – led by Elexon.

The functions across DCC included in these programme costs include Commercial, ILC Project Managers, OCAT Service Architects, Service Designers and Transition and Business Acceptance testing specialists, Test Assurance resources, CTO Architects and designers, Service Operations teams and Project co-ordinators.

### **Activities driving change in resource in RY24/25 and RY25/26**

The quantum of cost forecasted for RY24/25 is an increase on RY23/24. This reflects our forecast as per our business plan, which is the point at which our submission is based upon. Since this forecast however, we have recalibrated these allocations, reducing our internal forecast. We expect our FTE to remain flat across RY23/24 and RY24/25, with no increase in cost. For 25/26, our projected cost will fall as MHHS is delivered, but, our activity in this area is also driven by our customers and industry, and therefore we cannot accurately forecast this far in advance as to what changes are going to be requested and FTE needed for this. In general, allocations to SEC release will therefore be done sooner to the time.

RY24/25 has brought one SEC Release already (June 2024) and is on plan to deliver the November 2024 release. The June 2024 release delivered three modifications and other changes which included the new Market Half Hourly Settlements (MHHS) functional code in readiness for the Elexon lead programme due in 2025. The other two changes were requested and approved by DCC Customers and DCC delivered those as they have done on all previous SEC Releases. Outside of the MHHS benefit and obligation, the other changes introduce improved security checks and balances which leads to fewer at-home visits from Smart Metering engineers.

For RY25/26 DCC Customers are still deciding on the scope and nature of the changes they require for the November 2025 window but have requested and approved two modifications for the June 2025 window. The major benefit from one of those changes relates to improving the process by which Smart Meters are installed in people's homes, improving the overall success rate of the smart meter rollout.

#### **1.4.6.2. Operational**

The costs were not historically broken down by programme, with the introduction of time-sheeting we can now accurately break out function costs and re-charge to programmes. The resourcing is equivalent to previous years when budgeted in SD.

The Operational Change programme, also referred to as "Technical Refresh" ensures that DCC core systems are kept up to date to prevent any Service failures and resources are required to manage technical upgrades.

### **Activities driving change in resource in RY23/24**

Operational change is split largely into two areas. Dual Control Organisation (DCO), which is the security application within the SMETS1 estate that supports security key management) and DSP (SMETS2 Data Service Provider).

There were ten Operational change projects delivered under DCO in 23/24 and eight projects either completed or in progress under DSP in 23/24. Due to lifecycle of many major components coming to an end across this period many of these 18 projects involved particularly complex upgrades. These included upgrading the Operating Systems of both DCO and DSP along with many of their supporting components.

The functions across DCC included in these programme costs include Commercial, ILC Project Managers, Security specialists, Test Assurance resources, CTO Architects and designers, Service Operations teams and Project co-ordinators.

### **Activities driving change in resource in RY24/25 and RY25/26**

There are five major upgrades to the DSP infrastructure that are being delivered across this financial year. These are major component upgrades that require significant effort and oversight to complete. This includes the DSP Operating System, Storage Area Network, Windows Servers, Vormetric database and MySQL servers. This scope of work began in April 2024 and will complete in May 2025. Within each of these overall projects there are more than 30 individual components that must be upgraded with builds, testing and production cutovers happening in every month of the financial year.

#### **1.4.6.3. Scaling and**

This was a new programme for 23/24. It is required to ensure DCC increases its system capacity in the North to meet Industry demand this programme. As a result of increases in traffic and therefore demands on the CSP North

infrastructure, a series of capacity uplift projects were planned and delivered to ensure service is maintained and enhanced.

### **Activities driving change in resource in RY23/24**

Over the course of 2023 the underlying infrastructure was upgraded, a complex project that provided the foundations for the subsequent activity in 2024. In 2024 various components of the CSP North infrastructure are being upgraded to ensure the demands on the network can be accommodated. This phase of the project will complete in October 2024.

Phase 2 of the Scaling and Optimisation project will then commence, in order to deliver further capacity increases before they are required again in Mid-2025. Forecasts for RY24/25 and FY25/26 will be finalised during the planning stage of the future stages of this programme, and therefore the quantum of costs we will need for this had not yet been fully captured at the time of capturing our data.

The functions across DCC included in these programme costs include Capacity, Commercial, ILC Project Managers, Security specialists and CTO Architects.

#### **1.4.6.4. Commercial**

This programme was originally set up given that we have multiple contract extensions, procurement, tech refresh and 3G sunset within the SMETS space. It covered the VMO2, Arqiva, [REDACTED] and [REDACTED] contracts specifically. We needed multiple stakeholders across the business to coordinate due to the interdependencies across multiple workstreams, in order to ensure that deliverables are coherent and represent best value for money.

### **Activities driving change in resource in RY23/24**

- Arqiva and VMO2 Commercial strategies for extensions, full business cases and non-objections, with discussions on going which are aligned with the DESNZ
- VMO2 3G sunset has been progressed with key change control now being progressed to resolution and delivery covering Traffic Management Gateway being paid for by VMO2 and not DCC, therefore avoiding costs of c£12m
- [REDACTED] Procurement is now in its final stages, with the likelihood of an extension to the contract now not being required due to the team driving timelines

#### **1.4.6.5. Capacity**

As part of that MHHS Programme – DCC have also begun to deploy the necessary Infrastructure and Capacity requirements to serve the expected increase in information entering its solutions.

Ofgem directed DCC to ensure the capacity requirements for MHHS were met outside of the SEC Release framework via letter in August 2022. The budget for this was still included in the overall referenced Ofgem business case.

### **Activities driving change in resource in RY23/24, RY24/25 and RY25/26**

As the capacity requirements matured and were submitted to DCC Service Providers for consideration, DCC challenged multiple estimates to ensure that value for money was at the heart of delivering the capacity uplifts, while, at the same time, ensuring the service it provides is maintained and, where possible, enhanced. The objective of DCC's Service Providers was to size their systems according to DCC requirements and ensure the service met agreed performance standards. Our established processes for procurement have ensured that we have delivered within the budget agreed with Ofgem at the start of this work, despite a difficult operating environment of rising costs, due to inflation and other factors.

These capacity requirements will continue to be reviewed and refined over the course of RY24/25. As the Programme increases the focus on implementation planning ahead of Go-Live in April 2025, all aspects of Operational Readiness for DCC are being managed ahead of this date. In terms of FTE allocation and the longevity of the Capacity programme, the MHHS external capacity programme's migration period runs from April 2025 to December 2026.

#### **1.4.6.6. 3G Sunsetting**

### **Activities driving change in resource in**



VMO2 are retiring their 3G service nationally to facilitate the move to 4G (Other Networks have already removed their 3G service). After 3G switch off, VMO2 SMETS2 Comms Hubs will seamlessly move into 2G and continue to operate. To maintain current levels of service for SR's (Service Requests) VMO2 will also introduce a TMG (Traffic Management Gateway) solution.

VMO2 have agreed to cover all costs for delivery including CGI testing cost. This and future charges will be billed to VMO2.

#### 1.4.6.1. Future

Connectivity is fundamental to the Data Communications Company's (DCC) smart platform and service which in turn plays a pivotal role in the digitisation of Britain's energy system through the installation and operation of smart meters, and through enabling innovation and reuse of DCC's network to accelerate decarbonisation and drive social good. Today, DCC uses a combination of Long-Range Radio (LRR) and commercial mobile technologies (2G/3G) to connect circa 30 million meters to its smart platform on a 24/7 basis, securely transferring energy data from homes and businesses to energy suppliers. At scale, the smart metering network will need to support fast, secure, highly available and reliable communications across circa 100 million devices in 30 million premises.

To prepare for this future, DCC is developing a strategic business case that considers the inherent limitations of existing connectivity technologies including the sunsetting of 2G/3G in the UK, assesses how the future connectivity technologies could be adopted to meet the needs of DCC's customers and ensures that the final choice of technologies will underpin the evolution of the network up to 2050. The current platform that smart meters rely on to exchange data between energy consumers and their providers is built on a mixture of radio and cellular technologies that are limited both in their capacity and enduring capability. In particular:

- **The sunsetting of legacy cellular technologies**, with 3G to be sunset by 2025 and 2G to be sunset by 2033 at the latest.
- **The management of multiple SMETS1 and SMETS2 contracts** that expire between now and 2033, including the end of the Arqiva Communication Service Provider (CSP) contract in 2033, which DCC is unable to extend further without the need for additional procurement.
- **The long-term sustainability of the LRR network in the North Region (CSP.N)**, which is based on proprietary technology, and the network as currently designed and implemented will not be capable of meeting the evolved requirements at scale beyond 2026 when the network reaches approximately 5m premises. Future Connectivity will assess which technology will best meet the requirement to connect 10.5m premises by 2033.

The infrastructure timelines for deploying new devices and replacing those reliant on outdated technologies are complex logistical challenges in their own right. However, these risks present multiple challenges to industry, including:

- The workforce capacity required to support the volume of installation and replacements nationally before 2033.
- The readiness of consumers to support any new installation and replacement requirements.
- The cost implications of potentially stranded assets.

The Future connectivity project has been developed in recognition of the complex position presented above.

#### Activities driving change in resource in

Operations play a fundamental role in the design, build and operation of the Smart Metering Wide Area Network (SMWAN). The Future Connectivity programme is dependent on Operations to support the programme as it develops HMT Green Book business cases and then during the design, build and implementation of future connectivity technologies. In life Operations will be required to manage the co-existence of multiple connectivity technologies, the transition between different connectivity technologies and assure performance complies with the SEC.

The variance for RY23/24 is due to this being a new programme introduced in RY23/24 and forecasts for RY24/25 and FY25/26 will be finalised during the business case planning stages of this programme, and therefore the exact quantum of costs needed over the next few years was not fully captured at the time of extracting the data being reported.



## 1.5. Drivers for Variance – Non-Resource

During RY23/24, there were nine services within Operations that had material variance, (i.e., over £0.15 million). The breakdown is provided below.

**Table 6: Material Variance for Non-Resource**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement Type
Training	NP	£m	0.092	0.176	0.117	
█ - Capacity Management	ES	£m	0.292	0.184	-	
EDAM	ES	£m	0.069	0.065	0.588	
ISM Transformation	ES	£m	0.410	-	-	
Project █	ES	£m	0.336	0.556	-	
SMDA Test House	ES	£m	0.267	0.250	0.321	
SMETS2 Legal Advice	ES	£m	0.200	-	-	
Omniscope MCC IT	IT	£m	0.000	0.057	0.225	
Service Desk	SM	£m	-0.669	-0.625	2.044	

### 1.5.2. Training

During RY23/24, Operations began to mature its approach to training and personal development of employees, underpinned by our second strategic objective of “Investing in our people, technology, and processes”. In RY23/24, we began to provide functional learning to Operations staff, creating a baseline level of capability on which to build upon in outer years.

- 26 employees from the OCAT team took the Service Integration and Management (SIAM) Foundation course. SIAM is a framework that helps organizations coordinate and manage services provided by multiple service providers and focused on coordinating with various service providers to provide excellent value.
- IT Infrastructure Library (ITIL) V4 Foundation training was provided to 69 employees who were identified as working in a key IT Service Management role, mostly in our Service Operations, OCAT and Change teams.

During RY24/25 and onwards, we are forecasting to provide further training opportunities to our employees, both to improve capability across our employees and to have a positive impact on employee engagement and reduce attrition. The proposals include:

- Specific talent development for individuals designated as high potential or who have been identified in succession plans for critical roles. The specifics of the training will be dependent upon a training needs analysis for the role, and a gap analysis undertaken with the individual. Not only will this bring about benefits to individual capability and employee engagement but will also reduce risks to critical roles being left unfilled for long periods of time.
- Various skills-based training activities based on role profiles - for example further ITIL qualifications both at the Foundation level and the higher ‘practitioner’ levels, Global Best Practice in IT Major Incident Management® certifications for our incident management teams, and leadership development, amongst others. All training will be subject to review of benefits and costing prior to approval and will be procured using our preferred suppliers list. We have used guidance and benchmarking data from the Chartered Institute of Personnel and Development (CIPD), which suggests that an optimal forecast for training and development budgets was █ per permanent employee, per annum to create this initial forecast.

## 1.6. External

### 1.6.1. [REDACTED] - Capacity

#### Driver for the Procurement

Capacity Management's role is to ensure the DCC's Network Infrastructure is maintained and grows to meet future demand in a timely and cost-efficient manner. It assures the optimisation and traffic management capability of the network delivers customer needs, driving efficiency of existing and future network traffic flows.

Until February 2023, DCC Service Partners were issued with quarterly demand forecasts with a six-month outlook. However, we needed to develop and implement a new approach due to growing user demands on the DCC Network with a much longer-term outlook. This aimed to give assurance that Service Providers could meet future demand growth in a demand in a timely manner and assess any related costs.

A provision was made in our business plan for RY23/24 for external Capacity support. In February 2023, a reorganisation brought together teams across CTO and Operations, and the DCC recognised that experienced support was needed to help establish robust capacity management processes with DCC Service Partners, which DCC didn't have the existing resources or experience to support. DCC undertook customer engagement primarily via SEC Panel Operations Group (OPSG ) and OPSG Chair at the time, to outline the new approach DCC was implementing regarding Demand Forecasting and how this fed into the DCC Service Providers

This activity commenced in November 2023 and will complete in October 2024, after which it becomes a business-as-usual activity. Planning is already underway to ensure the DCC Capacity Management team is right sized for the activity, without the need for ongoing external support.

#### Securing Value for Money

The Capacity Management activity was [REDACTED] procured under [REDACTED], as support was required from an external organisation to provide professional services for capacity assurance over the short, medium, and long term. The support was equivalent to (as a minimum) two FTEs, with the possibility of SME project support. This was required to evolve current best practice to mitigate capacity constraints and risk. Capacity Management is an outcome-based activity that is expected to be transferred to permanent FTE on an enduring basis, and we expect [REDACTED] to exit in October 2024.

The desired outcomes were to supplement our internal capability by:

- Creating a process for the management of 12 suppliers.
- Monitoring analytics.
- Developing plans for capacity assurance.
- Providing assurance on capacity modelling.
- To baseline the process of internal capacity modelling.
- Support the formation of future tooling and automation.
- Development of capacity metrics and reporting.
- Capture supplier insights and opportunity to mitigate capacity risks and issues.

DCC originally approached six suppliers, of which one declined to bid. Once we supplied the Request for Proposal (RFP), [REDACTED] were the only supplier to submit a bid. We negotiated standard DCC terms and pricing. The RFP response included project team details and plan to deliver the services. We also requested background and credentials on the proposed team and evidence of previous clients and case studies to provide confidence that the supplier could provide the services effectively.

[REDACTED] were also interviewed by the project team and the Audit Committee to ensure the suppliers' proposals meets DCC needs, and a [REDACTED] Financial Stability check was carried out with a rating of low. Proof the requirement for the work could be fulfilled by [REDACTED] was shown by their response scores in evaluation – scoring 4/5 on approach, experience, and personnel, and achieved a pass score on their submitted references.

#### Table 7. Summary of procurement

Procurement – [REDACTED] – Capacity Management	
Number of Initial invitations to tender	6
Number of Bids received	5
Number of Bids shortlisted / presenting	1
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

## 1.6.2. ISM Transformation

### Driver for the Procurement

For the RY23/24 budget, the only addition to the supplier budget (above what was previously in the RY22/23 budget allocation) is support for the functional transformation plans. This transformation commenced in October 2023 and concluded in April 2024.

The DCC In-Life Supplier Management function embarked on a transformation to improve various aspects of its activities covering the way it is organised and operates, the tools and methodologies utilised, the interactions with service providers, and the structures and frameworks in which it operates. This is against a backdrop in which DCC has begun to move the delivery of substantial parts of its supply chain to that of a 'disaggregated' model. The provision of service by one organisation will, in the future, be split between multiple providers.

This introduced challenges and opportunities for the management of operational performance of such service providers. This work was required to complete a transformation to a future state operating model, which will better enable the Supplier Management team to deliver on stakeholder and customer expectations over the coming years and support a disaggregated service model.

To support this work, we sought external support, whose services were competitively procured through a formal procurement exercise. The reason for seeking external support was to bring market best practice knowledge and thinking into our future state organisational design and to ensure a level of independence within the Organisational Design (Target Operating Model) workstream, thus ensuring the people impacted by these changes were treated fairly and consistently: all members of the In-life supplier management team were impacted from this change, so no internal resource was available to support the work.

During the RFP, four deliverables were specified and subsequently delivered by the successful bidder.

- Define a market best practice performance management framework.

This deliverable was to define a performance management framework based on market best practices. This framework has helped establish clear metrics and benchmarks for evaluating and enhancing performance across Smart DCC. By adopting industry-leading practices, we have ensured that our performance metrics align with the highest standards, enabling us to continuously improve service reliability and quality. This structured approach to performance management has allowed us to address issues promptly and maintain a high level of service consistency.

- Target operating model design.

The second deliverable was the design of a Target Operating Model (TOM). This model serves as a strategic blueprint for aligning our organisational structure with our long-term goals. By clarifying roles and responsibilities and optimising processes, the TOM has streamlined our operations. This enhanced coordination and responsiveness ensure that we can quickly adapt to changing needs and provide seamless service to our customers. The redesigned operating model supports a more agile and efficient organisation, leading to better service delivery.

- Process review/mapping and documenting of processes (including work instructions).

This deliverable involved a thorough review and mapping of key processes, along with detailed documentation. By standardising our processes and creating clear work instructions, we have ensured consistency and accuracy in our operations. This meticulous approach has reduced errors and increased efficiency, as all team members have a clear

understanding of their tasks and responsibilities. The comprehensive process documentation also supports smoother onboarding and training, further enhancing operational efficiency.

- Tool set review and recommendations for future tooling.

The final deliverable was a review of our current toolset and recommendations for future tooling. This assessment identified the most effective tools for our needs and provided guidance on future investments. By adopting the recommended tools, we have enhanced our capability to manage and support our services more effectively. The improved tooling has enabled us to automate routine tasks, reducing manual effort and increasing the speed and accuracy of our operations. This technological enhancement has facilitated a more proactive approach to service management, ensuring we meet customer expectations with greater reliability.

Other deliverables included a 'playbook' to establish clear ways of working in the DCC. Our Lifecycle management approach enables us to manage any changes to existing services and the implementation of new services provided to our customers through our approach. This provides an ongoing process to ensure that services are managed proactively and efficiently through the course of their lifecycle, with clear accountability at each stage. It seeks to support our shift to increased in-life management of services and builds on lessons learnt from activity such as in-life maintenance.

The purpose of the 'playbook' was to ensure that Senior Service Lifecycle owners could be effective quickly when supporting the lifecycle development of DCC's Service Families. This has been instrumental in addressing the long-term needs of customers. One demonstration of the value of the work was in developing the strategy and Roadmaps to support planning for the sunseting of 2G/3G services in the UK and the impact on SMETS1 meters that will all require replacement. The 'playbook' is now used as key collateral to support the onboarding of new resources and to support the further development of business processes using permanent internal staff.

### Securing Value for Money

The [redacted] procurement was completed under [redacted], with seven suppliers initially requested to respond to the RFP, and three suppliers invited to present.

The bidders were scored based on aspects of both quality and commercial viability.

Table 8. Bidder ratings [redacted]

Bidder	Quality Score	Commercial Score	Total Score
[redacted]			

DCC selected [redacted] as they demonstrated an excellent understanding of the requirement and proposed a team that was best aligned with DCCs requirements. The team also demonstrated that they had the technical expertise and breadth of experience required to complete the work.

The transformation project is expected to realise benefits during RY24/25, including a cost saving of £ [redacted] per annum due to reductions in resource spend, with a full return on investment expected after [redacted] months. There are also other qualitative benefits expected, including service improvements – including supporting our suppliers to better meet their obligations, efficiencies, and operational effectiveness.

Table 9. Summary of procurement

Procurement – ISM Transformation	
Number of Initial invitations to tender	7
Number of Bids received	7
Number of Bids shortlisted / presenting	3
Strengths of Selected Bidder	
Challenge by DCC	

### 1.6.3. Project Blue

Prior to November 2023, DCC managed all in-life and end of life change projects within the Service Delivery function. After consultation with our customers in various industry forums, including SECAS and SEC Panel, and feedback from Ofgem around listening to our customers, it was identified that operational change should be self-managed within the Operations function as an enduring capability, alongside making some changes to RACI, ways of working and governance.

Whilst several activities were managed in house, including bringing support and expertise from our Service Delivery Function, DCC also required support from a third party with strong credibility in designing and implementing new operating models in a similar and relevant industry, and who could share a detailed understanding of operational change management methodologies, best practice, and benchmarking data.

This procurement had under two phases ( ) with clear deliverables including the creation of a new organisational design, SLAs and process definition, capability models, and a transition plan that mitigates risks to delivery.

Executed in RY23/24, the initial phase was design. The changes to the Operating Model will bring about several benefits to our customers across the In Life Change portfolio, which includes SEC Delivery, REC Delivery, Critical Technical Refreshes, and Firmware upgrades to meet GBCS standards across the full CH estate. KPIs have been created and will be tracked to deliver the following Benefits as the programme has now moved into its Delivery and Implementation phase in FY24/25, with contracted to implement.

The benefits include:

- Annualised resource savings of £m: Ring-fenced roles and named accountabilities within supporting DCC functions resulting in outcome orientation for each product area and reducing cost per change.
- Annualised Supplier savings of £m: Clear accountability for asset management leading to improved visibility of critical maintenance: resulting in proactive management and ability to negotiate better costs with the Service Provides
- Consistent and industry standard processes, resulting in enhanced automation opportunities and reduction in manual interventions and hand-offs. Leading to more impact assessments meeting SLA, enabling improved Cycle Times, and reduction in incidents and outages caused by change.

#### Driver for the Procurement

The activity was not including in our original business plan for RY22/23, and the original budget was included within the Service Delivery function for Phase 1 costs. Operations took ownership of these costs and the Phase 2 budgets after the handover of work and resource in November 2023.

Various options were considered prior to the RFP being raised, including managing this activity in house. However, after detailed review, it was deemed that DCC did not have sufficient capacity or capability in house at that time to undertake this activity and deliver industry best practice.

Engagement occurred with SECAS and SEC Panel during the procurement process.

### Securing Value for Money

The approved procurement route for these requirements was a [REDACTED] RFP. The RFP was issued to two new suppliers and one pre-existing supplier. The original RFP invited suppliers to provide a response to the Phase 1 Design phase and to include a rate card for the implementation of the outputs from Phase 1 if DCC chose to engage the successful bidder in Phase 2, which subsequently was the case.

The following suppliers were invited to participate:

- **New**
  - [REDACTED]
  - [REDACTED]
- **Pre-Existing**
  - [REDACTED] – they declined to bid following on from receiving and reviewing the RFP documentation.

### Evaluation

The quality and capability evaluation was conducted by senior staff across the function. The commercial evaluation consisted of reviewing and comparing the pricing submitted by all bidders for the services and performing a financial stability check. The financial stability was assessed via a [REDACTED] report and the risk was rated 'low' from an overall business risk perspective.

Following the evaluation and moderation, the successful bidder was [REDACTED]. In line with the published RFP documents and the evaluation results, [REDACTED] overall score was 82 out of 100 and were ranked at number 1 overall.

They scored 52 out of the 70 available on quality and 30 out of the 30 available on commercials.

**Table 10. Summary of procurement approach –**

Procurement – Project Blue – [REDACTED]	
Number of Initial invitations to tender	3
Number of Bids received	2
Number of Bids shortlisted / presenting	2
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

Table 11. Summary of procurement approach –

Procurement – Project Blue –	
Number of Initial invitations to tender	N/A – covered in Phase 1
Number of Bids received	N/A – covered in Phase 1
Number of Bids shortlisted / presenting	N/A – covered in Phase 1
Strengths of Selected Bidder	N/A – covered in Phase 1
Challenge by DCC	

#### 1.6.4. SMDA Test House – PR7670

##### Driver for the procurement

Following National Audit Office recommendations regarding Interoperability made in 2019, BEIS (now DESNZ) requested that DCC submits its CHs to the Smart Meter Device Assurance (SMDA) Scheme. The scheme was set up to provide assurance to consumers, suppliers, and financiers that smart meter equipment will work effectively in a smart environment. DCC agreed with this recommendation, and it was implemented as a Critical Success Factor in March 2021.

The proposals were supported by DESNZ, and Technical and Business Design Group (TBDG) industry forums and widely supported by industry, including members of the SMDA scheme that has representatives from across industry. This has enabled the SMDA to show industry that our CHs have been through their Assurance and that they have also demonstrated interoperability with a selection of meters and Prepayment Meter Interface Device (PPMIDS).

DCC continues to support the scheme with CHs variants – EDM1, Toshiba, and WNC for both Single Band and Dual-Band, and this will be extended to the new 4G Toshiba CH in H2 2024. The ongoing commitment to the scheme means that industry can benefit by testing their own devices against CHs with the very latest major firmware releases, which otherwise would not be possible. These releases include defect fixes and new SEC technical specification compliancy from ongoing SEC Releases.

##### Securing Value for Money in Contract Renewal

The contract was extended with in July 2023 for a further twelve-month period to June 2024. The requirement from industry was to introduce the CHs into the SMDA Scheme, operated by Gemserv, on behalf of its members. The ongoing costs for the scheme fund the CH testing for each new major GBCS release of firmware, and any maintenance releases that have been planned into the annual roadmap, providing an independent level of assurance. The fees are based on a rate card published to industry. The cost for the one-year renewal in July 2023 was £[REDACTED], compared to £[REDACTED] the previous year. The extension was included in DCC's business plan via the lock process.

There are no alternative providers available to DCC to renew the service. The SMDA Scheme has been set up to provide assurance to consumers, suppliers, and financiers that smart meter equipment will work effectively in a smart environment. The Scheme provides assurance testing of smart metering equipment covering both interoperability and interchangeability of the devices and is unique in that it is the only assurance scheme that tests each device against multiple devices and is owned by Smart Energy Code Company (SECCo).

The annual budget costs straddle contractual years – the forecast for 24/25 is £[REDACTED] that is lower largely due to fewer GBCS releases over the period, and £[REDACTED] for RY25/26. It should be noted that the SMDA scheme is tending for a new Test House in 2024, and DCC is bidding for this activity that would realise better value for customers along with the ability to provide a much broader test scope.

#### 1.6.5. SMETS2 Legal Advice

DCC submitted a Strategic Outline Case (SOC) to DESNZ on 9 June 2023 which recommended extending the contract to its full term until 31 Oct 2033, on an "as is" basis i.e. based on existing service scope, T&Cs and pricing regime (>£[REDACTED]m plus indexation), noting that the contract does not explicitly state cost levels for the Extension Period, but implies that VMO2 should only charge reasonable cost.



The SOC was also on the basis that any key changes identified as arising from 3G sunseting and other technology risks would be negotiated under a non-legally binding Heads of Terms/MOU document and then subsequently contracted via future Change Control, with any material changes arising from this being subject to further Board approval.

DCC received a non-objection to the SOC from DESNZ on 19 June 2023 with no further requirement to proceed to an OBC or FBC. The Department also requested that DCC write to VMO2 exercising its option to extend the Contract Term for 5 years.

We had multiple rounds of negotiations with VMO2 to try and agree the principles of extension through an MoU. This required significant support, but unfortunately no agreement was reached. This also required multiple conversations with not just VMO2 but also the Department, including tripartite conversations and escalations to Government Ministers.

### Securing Value for Money

Given the extent and quantum of the possible MoU, we sought best value expertise in the event of dispute. We sought advice from two advisors experienced in disputes, [REDACTED] and [REDACTED]. We also sought [REDACTED] to provide independent advice to DCC and the Department on VMO2 and the similar Arqiva contracts, this activity was sole source tailored to the individual's relevant expertise. We are unable to undertake this type of work solely in-house.

#### 1.6.6. RY25/26 forecasts

No baseline has been set for RY25/26 across three cost items, therefore all costs for these are showing a variant compared to the zero baseline. We forecast equivalent costs for RY24/25 and RY25/26, and are not proposing significant variations to these services.

**Table 121: Forecast costs where there are RY25/26**

Incurred	GL		RY24/25	RY25/26
EDAM	ES	£m	0.813	0.588
Omniscope MCC IT	IT	£m	0.275	0.225
Service Desk	SM	£m	1.929	2.044





# Design and Assurance

**Version: 1.0**  
**Date: 31.07.2024**

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# 1. Design and Assurance (CTO) Cost

## Summary

### What is this and why is it important?

The Technology function (or CTO) is responsible for setting DCC's technology strategy, design assurance, system integration and change assessment.

The technology function has a key role in the delivery of DCC's programmes, from developing the solution requirements for re-procurement of the Data Services Provider (DSP), to moving programmes through our various testing stages. Key areas of work include:

- Significant core industry obligations for testing all modifications, releases and change, and any new capabilities under SECMODs or approved programme activity.
- The 4G CH&N Programme which is on track to deliver full roll out of 4G hubs from mid-2025.
- Providing technical expertise in complex areas such as 2G/ 3G sunseting, scaling capacity in the north region and No WAN.
- Using current best technology practice to support the re-procurement of legacy systems to improve resilience and efficiency.

### RY23/24 activities and costs

The total internal costs in the Design & Assurance function were £15.4m (with a variance of £5.2m to Ofgem's baseline). These costs are largely driven by payroll, recruitment and external services.

On a like-for-like basis, we have significantly decreased payroll spend in RY23/24 vs. RY22/23 (by £4m). Our technology team has kept headcount flat through RY22/23, RY23/24 and will continue to do so in RY24/25 despite increasing activity. The increased demand for our services has been met through efficiencies and prioritisation.

However, the move to a Design, Build, and Run organisational model has resulted in headcount formally moving from other functions into CTO, which results in variances to baselines in some of the cost centres.

Given the high volume of technology change underway at present (e.g. 4G CH&N, DSP), demand for CTO services has been high over short periods through the year. This has required the use of external services to meet peak demand where required to deliver our obligations efficiently.

Over RY23/24, significant effort across internal initiatives and collaboration with external service providers has driven a reduction in the number of defects found in our User Integration Testing (UIT), with UIT-A down from 21 to 6 open defects, and UIT-B down from 14 to 5, saving time and money.

### Future activities and costs

As part of our focus on delivering cost efficiently, we will continue to focus on building our resource management expertise and access to suitable flexible resourcing to ensure we can meet peak periods of demand and reduce reliance on external services. This is reflected in our forecasted reduction in external service spend in RY24/25 and RY25/26.

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the programme purpose and our resource and non-resource costs.

#### Cost Centre variance by GL

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

Baseline			RY23/24	RY24/25	RY25/26
<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>10.273</b>	<b>7.181</b>	<b>-0.000</b>
Payroll costs	PR	£m	9.554	6.734	-0.000
Non-payroll costs	NP	£m	0.280	0.281	-
Recruitment	RC	£m	0.022	-	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.418	0.166	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	-	-	-
Office Sundry	OS	£m	-	-	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>15.441</b>	<b>12.950</b>	<b>15.976</b>
Payroll costs	PR	£m	8.677	9.159	12.600
Non-payroll costs	NP	£m	0.331	0.242	0.245
Recruitment	RC	£m	0.206	0.006	-
Accommodation	AC	£m	0.067	0.159	0.160
External services	ES	£m	6.050	3.271	2.858
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.110	0.112	0.113
Office Sundry	OS	£m	-	-	-
Variance			RY23/24	RY24/25	RY25/26
<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>5.168</b>	<b>5.769</b>	<b>15.976</b>
Payroll costs	PR	£m	-0.876	2.425	12.600
Non-payroll costs	NP	£m	0.051	-0.039	0.245
Recruitment	RC	£m	0.185	0.006	-

Accommodation	AC	£m	0.067	0.159	0.160
External services	ES	£m	5.632	3.105	2.858
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.110	0.112	0.113
Office Sundry	OS	£m	-	-	-

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

### Programme Variance by Sub-Team

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

Baseline			RY23/24	RY24/25	RY25/26
<b>Design &amp; Assurance (CTO) Payroll Costs</b>	<b>£m</b>		<b>9.554</b>	<b>6.734</b>	<b>-</b>
Business Analysis	£m		-	-	-
Architecture	£m		-	-	-
Network Evolution & Infrastructure	£m		1.741	1.689	-
Cloud	£m		0.276	0.276	-
CTO Office	£m		0.321	0.321	-
Engineering	£m		3.310	3.346	-
Technology Innovation	£m		0.877	0.877	-
Testing Services	£m		3.029	0.225	-
DCC Cloud Programme Resource	£m		-	-	-
HSM Portability Programme Resource	£m		-	-	-
<b>Incurred</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Design &amp; Assurance (CTO) Payroll Costs</b>	<b>£m</b>		<b>8.677</b>	<b>9.159</b>	<b>12.600</b>
Business Analysis	£m		0.035	1.821	1.304
Architecture	£m		2.078	1.377	2.048
Network Evolution & Infrastructure	£m		-	-	-
Cloud	£m		-	-	-
CTO Office	£m		0.242	0.253	0.250
Engineering	£m		3.471	3.132	4.862
Technology Innovation	£m		0.520	0.639	0.826
Testing Services	£m		2.226	1.937	3.310
DCC Cloud Programme Resource	£m		0.080	-	-
HSM Portability Programme Resource	£m		0.024	-	-
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>

<b>Design &amp; Assurance (CTO) Payroll Costs</b>	<b>£m</b>	<b>-0.877</b>	<b>2.425</b>	<b>12.600</b>
Business Analysis	£m	0.035	1.821	1.304
Architecture	£m	2.078	1.377	2.048
Network Evolution & Infrastructure	£m	-1.741	-1.689	-
Cloud	£m	-0.276	-0.276	-
CTO Office	£m	-0.079	-0.068	0.250
Engineering	£m	0.161	-0.214	4.862
Technology Innovation	£m	-0.357	-0.238	0.826
Testing Services	£m	-0.803	1.712	3.310
DCC Cloud Programme Resource	£m	0.080	-	-
HSM Portability Programme Resource	£m	0.024	-	-

## 1.2. Purpose, Scope, and Structure

### 1.2.1. Purpose

The Chief Technology Officer (CTO) Design & Assurance function provides the internal capabilities to ensure efficient design, effective integration, and assurance, as well as technical in-life support across the DCC Fundamental Service Providers (FSP) ecosystem to meet our licence obligations. It has continued to mature in RY23/24 with the leadership of the permanent CTO appointed in August 2020. The CTO aim is to become an open and transparent transformation partner on behalf of our stakeholders to ensure the Smart Meter infrastructure remains fit for its intended and evolving purpose. As the design authority for Smart Meter Infrastructure, we support the development of high-level design in order to deliver His Majesty's Treasury (HMT) business cases, which reduce variability during the Request for Proposal (RFP) process and ensure effective and efficient delivery and compliance against our regulatory obligations.

We continue to support industry partners and key stakeholders (Suppliers, DNOs, and Device Manufacturers) in developing high standards of technical leadership and delivery for DCC Functions, DCC Customers and Industry Stakeholders, for enduring support across Contract Renewals, Contract Extensions, Defect Resolution, Obsolescence Management, and Procurement.

### 1.2.2. Scope

Design & Assurance owns key accountabilities across DCC - detailed in the table below

**Table 1: Design and Assurance**

<b>Area</b>	<b>Description</b>
Technology Design of the SMETS2 Services	Accountable for the Design Principles, Integration and Assurance of the end-to-end systems relating to the Smart Metering Equipment Technical Specifications version 2.
Technology Design for SMETS1 devices and system	Accountable for the Design Principles, Integration and Assurance of the end-to-end systems relating to the Smart Metering Equipment Technical Specifications version 1.
Technology Ownership for the Switching Service	Accountable for the End-to-End technology design of the Switching Service.
Device Issue Resolution forum (DIRF)	Accountable for the running of and the forum and resolving Issues occurring on SMETS1 devices.

Area	Description
Future Connectivity Strategy for RY24/25	Accountable for the technologies required to enable the strategic direction of how DCC will ensure all systems and devices will remain connected and communicating with the Smart Metering Network now and in the future.
CSP Scaling & Optimisation (SMETS2)	Accountable for the technical design of how the Smart Metering Network will evolve to effectively manage the volume of messages across the systems now and in the future in the CSP North.
3G Sunsetting	Accountable for the assessment of the technical solutions from our CSP on how our service providers will manage the 3G communication network switch off, while maintaining SLAs required by the Smart Metering Network to communicate.
System Enhancements with Self Service capabilities that meet DCC User needs	Accountable for the Technical design of the solution needed to allow our users to access information about the services they receive and the devices within their portfolio and any Elective Communications Services they may require.
Technical Expert support to Programmes and DCC Operations	Specialist skills, knowledge and experience provided to DCC functions to guide, adviser and assure the technical delivery of approx. 800 changes per year across the Smart Metering Systems.
Implementation of a Systems Engineering framework (INCOSE 15288) to ensure quality of delivery.	Systems Engineering is a methodology to implement standardised, repeatable, and quality technical change within systems. The technology function is implementing this methodology into the change processes to gain efficiencies and increase quality to reduce incidents in the live systems and drive efficiency across resources utilization in various program.
Enhanced System Integration and Testing services, Test Labs, Assurance and Governance	Continually improving how we and our service providers deliver and assure testing of a solution in line with our obligations.
DCC Design Repository	DCC is required to maintain a design repository and baseline to version control across lifecycle of the services for all elements of the technology provided by our FSP's. This baseline supports operations, changes, BCDR as well as any future business handover planning.

As well as these, the function operates with a flexible resource model, where we charge colleagues out to our programmes, making best use of the domain expertise, skills, and knowledge that the function has. This improves programme outcomes, and therefore value for money for our customers. Our experts can be IT architects, subject matter and service domain expert, testing experts and analysts allocated to projects/Programmes delivering technical artefacts and assurance of designs from third-party suppliers. As a function, we support every major and internal programme DCC undertakes.

#### Key events and objectives driving activity and

- The function has played a key role in the delivery of the 4G CH&N programme across concept to contract, contract to market and will transition to market to retirement for in life support. The programme exited the Pre-Integration phase in January 2024 and is progressing through Systems Integration Testing and remains on track to deliver a pilot in RY24/25.
- We have supported the procurement of DSP, playing a major role in the development of the solution requirements, and the input of options into the SBC, OBC and FBC Treasury Green book business case. The focus has been developing a full requirement set to procure the new service provider.



- We have assured the low-level designs for the CH&N programme, completed design assurance and conducted testing to ensure the design is aligned with our requirements. This resulted in moving the program from Gate 2 (low level design) into Gate 3 (built completion) by end RY23/24.
- We have delivered the Cloud Blueprint, a document which standardises cloud design across DCC, to enable our suppliers to build to our principles and ensure consistency of their approaches.
- We have digitalised and mapped the requirements and obligations of the SEC into our central information repository (Bizz design) to ensure obligations are mapped to requirements and these can then be traced into design principles, RFP's and through to supplier designs.
- Both System Integrator contracts need to be re-procured and new contracts are due to be awarded in FY2024/25. Thus, DCC have been supporting the generation of commercial artefacts required, working with the incumbents to describe SI services in detail, setting out ways of working and volumetrics.

1.2.3. Structur

The structure has changed since the last submission to reflect the functional maturity and alignment to the increased delivery and activity between now and 2028 as well as the capabilities required to deliver the change needed for the foreseeable future.

Testing as a function moved back into technology after spending a short time under Service Delivery. This move was to establish closer ties to the architecture and the systems engineering approach being delivered by the technology function.

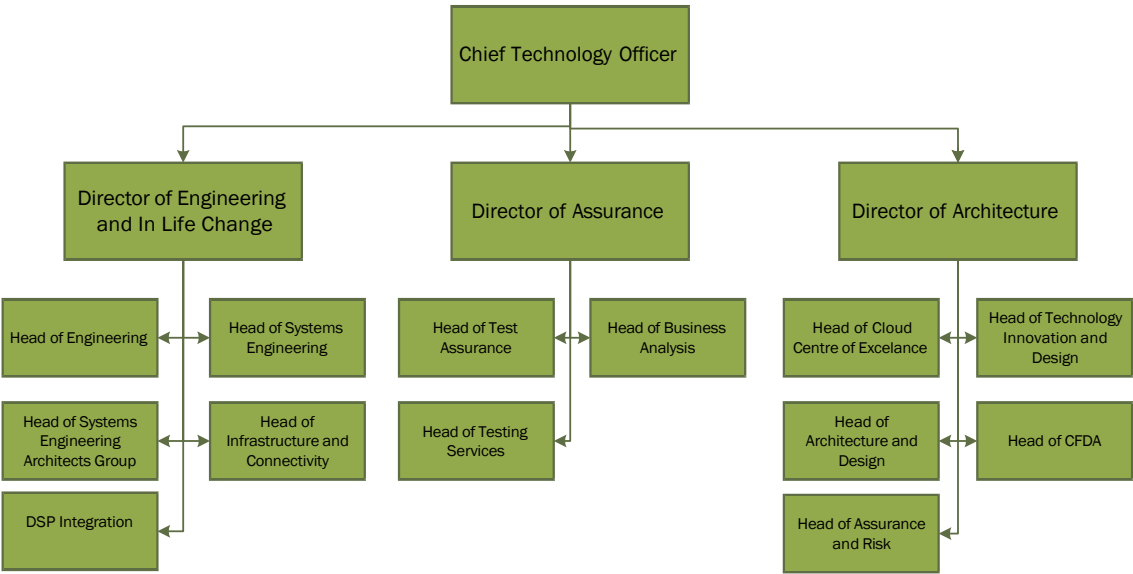
Engineering has also introduced a Head of In-Life change, who will manage change in the production environment from a technology perspective. Incorporating technical management, the team will drive process efficiencies and governance for all change to the technology in the production environment.

Testing (Assurance) also incorporated the Business Analysis team in 2023 to gain better alignment with requirements and technology change using the INCOSE standard and an architectural modelling tool [REDACTED]

The Cloud team was moved under an Architecture function to give the capability of building efficient, effective, and scalable platforms going forward.

The Integration function is not fulfilled but the function is under Engineering until the structure is fully complete.

Figure 1 – Cost centre organisational structure



The table below provides the overview of the structure of the CTO cost centre during RY23/24 and a description of the teams within the structure.

Table 2: Descriptions per Sub-

Sub Team structure reported in RY22/23	Current Sub-team RY23/24	Comments / Description
CTO Office	CTO Office	Comprises the Chief Technology Officer and their PA
Engineering	Engineering (renamed Engineering and In Life Change in RY24/25)	<p>The increased amount of change across our FSP's has resulted in a requirement to increased technical assurance in our engineering team. The team provides the following professional focus teams: systems engineering (SE), systems integration (SI), Systems Engineering Architects group (SEAG), Technical Delivery, communications hub team and the devices team – in addition to engineering management. The team also expanded to include In Life change and infrastructure and connectivity in 2023 to create a structure of technical domains that can service the technical changes to the current and future state to the Production Environment.</p> <p>The sub teams are comprised of:</p> <ul style="list-style-type: none"> <li>The SE sub-team addresses the need to mature and scale DCC's current and future operating requirements.</li> <li>The SI sub-team is responsible for authoring and the realisation of the DCC enduring SI strategy, encompassing the DSP subsystem and associated satellite programmes. This will align to assurance during the RY24/25 year.</li> <li>The SEAG provides direct support to the Cross Functional Design Authority and wider DCC, by taking technical ownership of systems, domains, and products within the DCC ecosystem.</li> <li>The Communications Hub sub-team are technical specialists on all Communications Hub variants within the DCC Ecosystem, managing device lifecycle for forthcoming products.</li> <li>The Devices sub-team are technical specialists covering a wide range of activities relating to smart meters and related devices, across both internal and external stakeholders.</li> <li>The technical Management team ensure that programmes delivery the correct technical artifacts into the governance regime (CFDA) and those artefacts are aligned to the INCOSE standard. This was later expanded into the In Life Change team within to look at effective process governance to the Production Environment.</li> <li>Supporting on Communications Hubs and Network (end to end Service evolution toward 4G)</li> <li>Supporting on Data Service Platform (DSP) integration</li> <li>Supporting on Radio Network Optimization (WAN)</li> </ul> <p>The Engineering Management sub-team ensures that all approved projects and programmes have appropriate expert technical resource, so the supplier changes and design proposal are robustly scrutinized and assured with principle of assessing the impact to our customer and end consumer to drive improved service experience.</p>

Sub Team structure reported in RY22/23	Current Sub-team RY23/24	Comments / Description
Network Evolution and Infrastructure	Network Evolution and Infrastructure	In RY23/24 the Network Evolution and Infrastructure, Technical Innovation/System Enhancements, Cross Functional Design Authority (CFDA) and Cloud Transformation were combined to form one Architecture team.
Technical Innovation/System Enhancements	Technical Innovation/System Enhancements	The team is responsible for defining the technology strategy. It will build requirements aligned to customer business outcomes, evolving the overall business architecture and design, build and deliver evolution of DCC Total systems SMIP (Smart Metering Implementation Programme) Architecture, adhering to DCC System engineering principles and governance.
Cross Functional Design Authority (CFDA)	Cross Functional Design Authority (CFDA)	
Cloud Transformation Team	Cloud Transformation Team	It is accountable for design and technology decisions made to support DCC's current and future customer strategic business needs. The DCC Network and Infrastructure will be designed and implemented to deliver operational benefits and value for money from end-to-end platforms, using government technology codes of practice to innovate, sustain, and improve, with 'secure by design' principles used throughout. This team are working to engage, share and build trust with all relevant stakeholders to support informed decision making. DCC is working with technology design partners to build DCC capability to drive commercial and contractual benefits to implement the DCC Digital transformation journey.
Test Architecture	Test Architecture (combined and renamed as Architecture and Design in RY24/25)	The team is additionally accountable for: <ul style="list-style-type: none"> <li>Data Service Platform Transformation (DSP Transformation)</li> <li>Enduring Trusted Service Platform (Enduring TSP)</li> <li>DCC Service Management Platform (DSMS)</li> <li>Cloud Strategy and Adoption</li> <li>Cloud Centre of Excellence.</li> <li>Assessing modifications of the SEC and REC that come through a defined process managed by a 3<sup>rd</sup> party</li> <li>Test Architecture responsible for the overall testing strategy, interaction with DCC supplier on a commercial/technical level and the implementation and maintenance of testing processes and tooling.</li> </ul>
Testing	Testing (renamed Assurance in RY24/25)	Testing transferred back into CTO in June 2022 after residing in Service Delivery for a short period. Testing comprises of: <ul style="list-style-type: none"> <li>Test Governance and Assurance is responsible for managing the relationship with SEC and REC, and specifically through engagement at the Testing Advisory Group and other forums. Responsible for test planning and preparation, validation of test coverage, test execution and verification of test completion by DCC's service providers</li> <li>Testing Services is responsible for overseeing the testing undertaken across the DCC services and supporting Testing Participants with their testing in the UIT Environment. Testing Services is also responsible for providing a Testing Issues Resolution service to the Users as well as programmes in the SIT environment as well as a fully functional Test Lab for User Entry Process Testing (UEPT) and Device and User System Testing (DUST)</li> <li>Enterprise Architecture test teams undertake testing activities for the DCC. The team ensure that the DCC systems work as expected. These systems were previously developed by Capita for DCC but are now being developed by Data Science and Analytics (DS&amp;A)</li> <li>In mid-RY23/24 the Business Analysis team was transfer to CTO under testing. This was to enhance the relationship between the Architectures and BA's when writing quality technical requirements for change.</li> </ul>

Sub Team structure reported in RY22/23	Current Sub-team RY23/24	Comments / Description
	Systems Integration	The Director of Integration was planned to be recruited for and a new team set up. A suitable applicant was not found within the year and the activities are covered in Engineering and Architecture.

### 1.3. Cost centre variances

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

**Table 3: Variance from the RIGs by**

	Total Design & Assurance (CTO)			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>10.273</b>	<b>7.181</b>	<b>-0.000</b>
<b>Total Incurred</b>	<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>15.441</b>	<b>12.950</b>	<b>15.976</b>
<b>Total Variance</b>	<b>Total Design &amp; Assurance (CTO)</b>		<b>£m</b>	<b>5.168</b>	<b>5.769</b>	<b>15.976</b>
	Payroll costs	PR	£m	-0.876	2.425	12.600
	Non-payroll costs	NP	£m	0.051	-0.039	0.245
	Recruitment	RC	£m	0.185	0.006	-
	Accommodation	AC	£m	0.067	0.159	0.160
	External services	ES	£m	5.632	3.105	2.858
	Internal services	IS	£m	-	-	-
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	0.110	0.112	0.113
	Office Sundry	OS	£m	-	-	-

#### Payroll costs variance

The overall Payroll costs variance is negative for RY23/24, reflecting our efforts to significantly reduce our payroll spend over the past year in comparison to RY22/23. Our RY25/26 data conveys a ramping up in headcount spend based on demand forecast not the internal approach. We have recently introduced a cost envelope, and we therefore do not expect this increase in CTO resource in RY25/26 to materialise.

**Table 4: Cost Centre incurred by Team**

Variance			RY23/24	RY24/25	RY25/26
<b>Design &amp; Assurance (CTO) Payroll Costs</b>	<b>£m</b>		<b>-0.877</b>	<b>2.425</b>	<b>12.600</b>
Business Analysis	£m		0.035	1.821	1.304
Architecture	£m		2.078	1.377	2.048
Network Evolution & Infrastructure	£m		-1.741	-1.689	-

Cloud	£m	-0.276	-0.276	-
CTO Office	£m	-0.079	-0.068	0.250
Engineering	£m	0.161	-0.214	4.862
Technology Innovation	£m	-0.357	-0.238	0.826
Testing Services	£m	-0.803	1.712	3.310
DCC Cloud Programme Resource	£m	0.080	-	-
HSM Portability Programme Resource	£m	0.024	-	-

## 1.4. Drivers for Variance – Resource

### Activities driving change in resource in

The Design & Assurance function has reduced its resource costs from £12.6 million in RY22/23 to £8.7 million in RY23/24. This is due to the efficiencies the function is making, and the new cost envelope we are operating in. Our function only has two variances for RY23/24, in the sub-teams of architecture and engineering and these variances are because these sub-team were realigned in RY23/24 and therefore have no baselines.

In RY23/24, there was an increase in activity supporting the Green Book business case and commercial pipeline. This included the DSP Procurement programme which shifted from change by the incumbent to full procurement, the Service Management Platform, PKI-E, DCO Platform, as well as support for the increased amount of supplier change.

### Activities driving change in resource in RY24/25 and RY25/26

From RY24/25, the function will be subject to the cost envelope, to ensure that our spending does not go beyond an agreed upon amount needed to efficiently deliver our role. The variances in RY24/25 are largely due to having no baseline or having a very low baseline due to disallowances for the forecasts we provided in RY22/23 submission.

In RY24/25 and RY25/26, we will see the activity in the commercial pipeline transition from concept to contract phase and into the contract to market phase which requires the technology function to assure designs, integration, testing and go live which requires the continued diligence of the technology function to fulfil our licence obligations and SEC/REC governance requirements.

In RY25/26, the above data suggests that we will be ramping up resource. This reflects the position in the Annual Business Plan as at 1 April 2024 which is now out of date. We expect FTE, and therefore spending, to remain relatively flat across the years. The number stated for RY25/26 is because the forecast does not include allocations of resource out to programmes, whereas the years RY23/24 and RY24/25 do. This is because resource allocation to programmes will be subject to the programmes need and therefore will change from now until then. The RY23/24 and RY24/25 cost for payroll appears to be much lower due to resource being confidently allocated out to programmes, but the overall cost for RY25/26 should net out between our function and the programmes.

### 1.4.1. Business Analysis

As with all the DCC functions, the Business Analysis section will be working to a prescribed cost and headcount envelope.

The variances shown are the result of the Business Analysis function moving from Service Delivery, and therefore, the team has no baseline.

### Activities driving change in resource in RY24/25 and RY25/26

Overall, our spend looks to be increasing in RY24/25. This is due to Business Analysis having moved from Service Delivery completely, and so a much larger portion of our spend is captured here than it was in RY23/24. Overall, there is not a net increase.

The core resources will be supplemented to meet the programme demand for the Data Service Provider, Future Service Management, and the Future Connectivity programmes. As with RY23/24, these resources will remain

within the overall headcount plans. If further additional resources are required, these will be funded by the programme spend.

The FSM Service Provider RFP process will be supported through to contract signature, anticipated on 2 September 2024. Once this has been done, further support shall be provided throughout the Design, Build and Test activities, ensuring that any queries and/or clarification requests are addressed and working with the programme to ensure that Requirements are fully traceable through the end-to-end process. Business Analysis will also support the DSP programme through the current RFP process. Detailed Level Business Requirements will be documented, to support the High-Level Business Requirements which have already been captured, and these will be used when working closely with the programme during the Design Build and Test phases. As with the FSM programme, further support will be provided throughout the lifecycle of the programme. The Future Connectivity programme will undertake a full Requirements elicitation exercise during RY24/25, building upon work done in previous years on connectivity programmes. These will be used to support the procurement process and will underpin the programme throughout RY24/25 and RY25/26. Full support will be provided to the programme by Business Analysis throughout its lifecycle.

DCC programmes are enduring and therefore there will be a need to meet demand. As the Business Analysis function is involved at the initial stages of a programme, any new programmes that are not yet visible are likely to have an impact on the resource demand at the time of writing this document.

In addition to the support of projects throughout their lifecycle, the Business Analysis team will also undertake further transformation exercises, with the intention of making the process of eliciting, documenting, and managing Business Requirements more efficient in future years. Standardised documentation methods will be further embedded into the department procedures, which will result in greater consistency across programmes. A Requirements library will be established and maintained, which means that a significant number of Requirements can be reused, where appropriate. A Requirements Management tool will be implemented to achieve this, and to manage the end-to-end traceability of requirements within a project. The introduction of central storage of requirements will enable DCC to identify synergies between project deliverables more easily, which may provide the opportunity for efficiency savings.

### 1.4.2. Architecture

As part of the restructure of the Design & Assurance function, the architecture sub-team was formed by moving FTE out of the Network Evolution & Infrastructure sub-team. What was the Cloud Transformation team was combined with an Architecture team. Therefore, we have no baseline for this team, and all spend is a variance. You will see that we have negative variances in Network Evolution & Infrastructure sub-team as a result.

The focus of the architecture team is on mandated work. Ensuring existing services and new services evolve to meet the needs of our customers. This also includes activities to improve service or reduce cost as different business cases come up. The core focus of the team over the next 3 years is the major transitions of our key programmes, including moving to a new Service Management platform (FSM project), replacement of the Trusted Services Platform (PKI-E), replacement and migration of the DSP platform and the Order Management system.

In each of these projects the Architects are shaping the initial architecture, ensuring we have alignment to the requirements, shaping the vendor engagement through processes like collaborative solutioning, through to assuring the designs that come back for evaluation in the bid process. Once a bidder has won a piece of work the architects continue to work to ensure the designs meet our needs – both functionally and non-functionally. Through these different stages, we report back monthly to TABASC for information, discussion, and decision, as well as having regular weekly sessions with DESNZ to get feedback we use to further shape as we progress to maintain high levels of engagement. These sessions can help shape and validate the work that is being done, or if there are pieces that aren't needed, we can reflect that in our requirements to ensure we are working on the right scope.

Depending on the programme, we will engage with other functions like security or operations, and where valuable engagement with customers to get early feedback on activities that especially impact customers like migrations.

The team also take in SEC modification proposals for review and impact assessment as they come in through the year, along with owning the architecture governance process to ensure programmes follow their right technical path. This CFDA review has optional attendees from DESNZ also.

### Activities driving change in resource in RY23/24

The sub-team have supported the kick-off of both the FSM and DSP programmes, outlining the high-level architecture in order to enable the Outline Business Case and ITT process. This ensures we get quality submissions that align to DCC architecture, presentations to customers on the scope, review of the requirements and scope to ensure it meets the requirements of industry. Further to this, the technical innovation pod worked on various SEC modifications and



evaluations, driving new customer feature requests. It is mandated within the SEC that all modifications are evaluated when raised within a defined Service Level, and therefore the work of this sub-team is mandated rather than permitted. The team has also been the primary lead in the work around CADg1 to provide a technical solution to customer sites where the Wide Area Network (WAN) is not available. DCC undertook this work on direct instruction from DESNZ.

Internally, we have transitioned our tooling for story management to cheaper alternatives to reduce licence costs (moved from Trillium to Microsoft Azure DevOps). The scale of projects we have means we need the ability to manage the backlog and decomposition of stories. Without this, there would be gaps in designs and high cost of change in programmes due to design defects. Further, we started the rollout of an internal Enterprise Architecture tool (see external service 1.5.1). This allows us to create, store and manage baselines for our architecture, key to enabling quicker future changes, and allowing us to absorb more projects without additional FTE. We can use this to structure architecture content for big programmes like FSM and DSP in a way that helps completed in-life change, as all artefacts are in one consistent place in a common form. Without this, completed in-life change would be harder and more costly to implement. A major internal accomplishment for the team was the production of the Cloud Blueprint, a document that standardises cloud design across DCC. With the major procurements of DSP and FSM, along with DCO and SMETS1 SPs, we are using this opportunity to standardise designs by creating design patterns that will enable our suppliers to build to DCC principles. We will adopt designs that will maximise the technical capabilities of the cloud such as dynamic scaling to ensure we deliver value for money. When there are variations in the traffic across the network Cloud technologies will scale (and price) accordingly. Coupled with Network traffic management, this approach is aimed at providing a resilient and scalable network in the most cost-efficient way for our stakeholders.

We have further created a plan for a 3-year transition state of the DCC ecosystems, shared with TABASC, which shows the work and change required to get to a final state of architecture, which will drive efficiency of planning and architecture in the business and identify common capabilities in build in order to reduce DCC and therefore customer costs. Our plan will allow DCC to structure architecture content for big programmes like FSM and DSP in a way that helps enable Completed In-Life Change (CILC) where change activities can be completed by 3rd parties to deliver. Additionally, areas such as driving common code repository having all artefacts in one consistent place, in a common form which will make CILC cheaper and easier to implement. Therefore, much of these internal activities are intended to improve our system, and subsequently drive better value for money.

Regarding our team structure, we have had a few changes that drove costs. The team grew to include a technical project manager who provides structure to the delivery of the artefacts and developed processes between programmes and the governance regimes giving consistent and timely delivery through the gating process. In life change was incorporated into the team so that changes to the live production system were captured. This provided consistent technical oversight into any releases being delivered outside of programme activities, maintenance releases for example. These changes are integral to delivering the activity that we describe above.

### **Activities driving change in resource in RY24/25 and RY25/26**

The architecture team's headcount will remain flat despite the anticipated additional demand of work. The team continually drive efficiencies in the way we work to absorb this through actions like rolling out Azure DevOps, and aligning architects to specific domains to retain knowledge between suppliers. The main programmes we will support in RY24/25/26 are DSP, FSM, PKI-E, DCO, as well as continuing to drive our Cloud Blueprint strategy. These are all fundamental services impacting projects to uplift and deliver a fit-for-purpose DCC, all presented and communicated to our engagement forums like Technical Architecture and Business Architecture Subgroup (TABASC), Security Working Group (SWG), Operations and regular DESNZ engagement on plans and architecture.

The function will roll out a new identity platform to authenticate users for RFPs, which is as a capability which can be reused in future projects, saving costs for our users. The same is being worked on for the integration platform to ensure common savings for system-to-system interaction.

Our work in RY24/25 will continue with the consistent cloud-based design principles and policy compliance to drive standardised use of cloud solutions over the next 5 years. We plan to facilitate increased use of technologies which are optimised for use in a cloud environment (Cloud Native), and to ensure that DCC and its Customers benefit from the increased capability that these provide, like lower outage windows and more scalable infrastructure to meet growth demands. Within DCC, there are increasing calls for cloud skills being developed or sourced to support

<sup>1</sup> CADg is a consumer access device that allows GBCS commands to flow through it. It is a solution to on WAN communications endorsed by DESNZ.



commercial, legal, regulatory and technology developments. The Cloud strategy enables a consistent approach to cloud adaption and portability to enable us to benefit from 5-15% reduction in hosting costs. This also enables migration between cloud providers in the future, if needed, to prevent supplier lock in. The cloud blueprint is fundamental in shifting to a more sustainable carbon footprint, using lower carbon footprint compute. One new proactive Cloud initiative is around FinOps (Financial Operations) which is the practice of having continued focus on the compute resources being used and how to optimise. As we move more to cloud infrastructure there are opportunities to scale up and down resources dynamically that were not possible with “on premises” compute. Without this FinOps focus – patterns, framework, and best practice – estimating compute resources is hard and inaccurate. Companies not employing FinOps have higher costs of 20-30% on average, so this work is essential as cloud is rolled out. Without it, cloud will still be rolled out in stovepipes by suppliers without this focus on cost control (optimise code, remove data not in use, scale down compute in quiet time, turn off test servers when not testing etc).

### 1.4.3. CTO Office

#### Activities driving change in resource in

Although we are not proposing any increase in resourcing in the CTO Office in RY25/26 there is a material variance because Ofgem set the baseline to zero in the RY22/23 Price Control decision document. Ofgem will be aware that the CTO role is in the LABP as the Design and Assurance Director and should have a baseline.

### 1.4.4. Engineering

As part of the re-structure of the design & assurance function, the engineering sub-team was formed by moving FTE out of the Network Evolution & Infrastructure sub-team. Therefore, we have no baseline for this team, and all spend is a variance. However, there is a negative variance in the Network Evolution & Infrastructure sub-team as a result.

In RY23/24 CTO have procured a consultancy to fully implement a DCC refined implementation of the INCOSE standard, building upon the work already done but including document management. It is envisaged that this standard will be fully implemented into DCC project delivery methodology in RY24/25 through an initiative in DCC. CTO are actively supporting this and inputting the technical requirements and specific aspects of the standard needed by CTO.

#### Activities driving change in resource in RY23/24

The Technology function recruited the following roles. This is not an exhaustive list but represents the senior roles required to support the activities undertaken, and therefore the FTE drivers of increased costs.

**Table 5: Engineering Activities Driving Change in Resources**

Role	Activities
Head of In-life Change	<ul style="list-style-type: none"> <li>Governance of all change affecting the in-life service. Integration of processes with operational teams and our service partners.</li> <li>Incorporating and expanding the Technical Management function to include in life changes.</li> </ul>
Head of Systems Engineering Architecture Group	<ul style="list-style-type: none"> <li>Creating a team of Domain experts who will support Service families through the mapping to technology domains to services and the right technical experts.</li> </ul>
Director of Architecture	<ul style="list-style-type: none"> <li>Creating and communicating strategic direction and plans on the future of DCC Architecture to external and internal stakeholders.</li> </ul>
Head of Cloud Architecture.	<ul style="list-style-type: none"> <li>Creating and implementing Cloud Blueprint.</li> </ul>

Role	Activities
	<ul style="list-style-type: none"> <li>Working with our service providers to standardise the use of Cloud technologies.</li> </ul>
Lead End to End Architect (Networking)	<ul style="list-style-type: none"> <li>Creating the high level (conceptual) Architecture pertaining to Networking between subsystems.</li> <li>Assurance of Service Providers Solution</li> <li>Technical Support to DCC Programmes</li> <li>Leading a team of Architects or projects to deliver the required solution through the internal and external governance regimes.</li> </ul>
Lead End to End Architect (DSP Commercial and technical capabilities)	<ul style="list-style-type: none"> <li>Leading a team of Architects or projects to deliver the required DSP solution through the internal and external governance regimes.</li> <li>Working with all stakeholders to create the technical requirements to contribute to the commercial contracts for the new DSP prover.</li> </ul>
Lead End to End Architect (Retail Energy Code knowledge and experience)	<ul style="list-style-type: none"> <li>Assing the technical impact of change to the Retail Energy code on the DCC Ecosystems.</li> <li>Working with our Service providers to deliver value for money solutions in a timely manner.</li> </ul>
End to End Architect (Service Management)	<ul style="list-style-type: none"> <li>Assuring the low-level design of the Service Management solution</li> <li>Providing technical input into the Future Service Management programme.</li> </ul>

On CH&N, our focus over RY23/24 was the assurance of the low-level designs, completion of integrated design assurance with support from [REDACTED] initiating the coverage assurance work, and closing off all DESNZ non-objection conditions on the 4G CH&N Full Business Case. We have also supported the project through the product integration, component and system integration testing to make sure the design is aligned with the requirement, best industry practices are followed, and cost efficiencies are identified and realised. This translated into moving the program from Gate 2 (low level design) into Gate 3 (built completion) by end RY23/24.

On FSM, the team has worked closely with the BA function to drive the capture of accurate technical requirements, holding collaborative workshops with internal stakeholders to ensure all aspects of the 'to be' architecture are captured, developing the high-level architecture for the FSM vision, disaggregating the functions currently provided by the DSP and integrating new features such as the API Gateway and IdP Hub, with a view to putting in the connectivity and security building blocks for future DCC programmes. The team additionally drafted a suite of technical questions to be included in the RFP document set provided to bidders and then were part of the response assessment team, analysing the individual responses from each bidder for questions covering the SMS toolset, the API gateway, the IdP Hub, security and data migration. This involved collaboration with the DCC Technical Management team to ensure a smooth pathway through rigorous DCC internal governance under the Cross Functional Design Authority (CFDA) and producing the required documentation to illustrate the work undertaken at each of the CDM Gates to achieve subsequent approval and sign-off.

CTO, in its capacity as the design authority, undertook a review of the MHHS technical solution and identified several areas within DCCs total systems that require change (including CSS (Central Switching Service), DSP, CSPs (Communications Service Provider), S1SPs (SMETS1 Service Provider)). We worked collaboratively with DCC colleagues across demand & capacity, products & logistics, programme and operations to do so. We also attended the Design Advisory Group (DAG) chaired by the MHHS programme and Elexon as a single DCC technical rep, as well as

assessing and voting on MHHS change. We worked directly with DCC service providers & customers on design elements of MHHS and are leading on delivering multiple SEC and REC changes/releases.

On the switching service, CTO undertook a review of the central switching service solution and identified several areas where positive change might be affected. Working collaboratively with DCC colleagues across In-Life change, Service and Operations teams, and directly with the supplier (██████████) CTO are leading on driving these through to fruition via requirements elaboration, raising supporting change requests and supporting design development and evolution.

We have also undertaken internal activities in the sub-team which have incurred cost. Systems Engineering has been trained across the CTO staff and this training is being pushed out across other functions in RY24/25. In addition to the training, the technical processes and artefacts are now defined and modelled in the architecture tool ██████████. The Smart Energy Code (in its entirety) has been digitised into ██████████ to allow impact assessment against change requests and some of the DCC baseline designs have been modelled, including the switching service. Modelling of the DCC baseline design is ongoing and will be incremented through a defined process created through an agreed lifecycle management regime. As an interim measure, a baseline model has been created in Visio thus enabling change to be assessed consistently. On a programme-by-programme basis the ██████████ consultant is coaching and mentoring the Lead Architects in the modelling process so that there is a consistent approach used when transferring technical documents to the modelling tool. We have additionally completed a Configuration Management Database (CMDB). The requirements have been documented and reporting templates designed. This fed into an initiative that requested our services providers to give DCC information on IT assets specifically their lifespan so that DCC can plan a cycle of replacements and refresh of the technology.

Both System Integrator (SI) contracts need to be re-procured and new contracts are due to be awarded in RY24/25. Thus, DCC have been supporting the generation of commercial artefacts required, working with the incumbents to describe SI services in detail, setting out ways of working and volumetrics. DCC have continued to explore opportunities to improve integration testing. This has resulted in assessing capability to monitor and report on defect and incidents through Systems Integration Testing (SIT), User Integration Testing (UIT) and the live production environments. This reporting will help DCC improve 'shift left' testing approach where more testing is performed in the early test stages (Pre-integration Testing for example), allowing for a better understanding of the causes of production incidents. This will be introduced at the start of RY24/25 in time to be utilised on the CH&N programme.

There are further activities planned in RY23/24 which will go into RY25/26, such as:

- Reprourement of SMEST1 services: giving DCC a more stable and resilient platform for the SMEST1 Final Operating Capability (FOC)
- Go-Live of the 4G communication service: giving a communication service that creates more options for our users to connect to our system and upgrades the capabilities of the service for the future. In addition, replacing the 2G/3G technologies that will be phased out soon.
- The technology function is actively working with our service providers and operations to identify assets that are at risk of going end of life. Once identified, we will be working with our operations colleagues to plan the replacement of the affected assets.

### **Activities driving change in resource in RY25/26**

Ofgem set the baseline for CTO to zero in its RY22/23 Price Control decision, meaning that all costs appear as a variance.

In RY25/26, CTO will be subject to a cost and headcount envelope. This is a new measure to enhance the efficiency of the function and was introduced following our annual business plan where we forecasted the incurred cost for this function. This means that we expect our incurred cost to remain flat. However, it is envisaged that this will fluctuate throughout the period to deal with peaks in demand. The technology function will endeavour to retain knowledge within the function by enhancing the Systems Engineering Architect group (SEAG) that will create a skills and knowledge repository through training people and the standardisation and control of technical documentation. Recruitment will continue but in specific and target areas to create the domain expertise under SEAG and fill capability gaps for pipeline activity. For example, The Dual Control Organisation (DCO) re-procurement and Applications Network Security Operations (ANSO) service will need SMEST1 expertise that will either be recruited for or developed internally and then backfilled by recruitment of external resources. Future Service Management and PKIe (Enduring Private key infrastructure) will also be in progress and going live during RY25/26 and the Engineering team will need to have the capability to fully support these services in the production environment.

DCC engineering will keep supporting the CH&N solution in terms of resolving any technical issues found during the system integration testing, Business and user acceptance testing ensuring that all issues are resolved on time to keep project on track (avoid any delay that reduce the benefit realisation) and minimising any technical debt that would requires re-work and additional cost or impact into performance at later stage.

### 1.4.5. Technology Innovation

#### Activities driving change in resource in

As described in last year's submission, the team is responsible for assessing modifications of the Smart Energy Code that come through a defined process managed by a 3rd party. The team provides representation at the various working groups, manage impact assessments with DCC's service providers, provide technical input and guidance on the modifications themselves. Also providing support from the initial impact assess, through design, test and build of a technical solution through to a release and final handover to the in-life service function. In addition, the team provides technical input into industry consultations and support to funded innovation competitions.

The variance in the final year of the forecast is caused by a combination of the baseline being set to zero for all of CTO as well as less of the resources being allocated out to the programmes given the challenge of forecasting demand several years out. This has the effect of assigning costs back to Technology Innovation sub-team that will ultimately be charged out to other parts of DCC in future.

### 1.4.6. Testing Services

The team is comprised of two areas: Testing Services and Test Assurance.

Testing Services provides services to industry, allowing industry to use the testing facilities at Brabazon house, supporting the onboarding of test participants (DCC Users) and the end-to-end testing processes. The team focus mainly on the UIT Environment but cover other areas where necessary to support end to end testing by DCC users. UIT is the first time the DCC users can test with a new version of DCC systems and is a true end to end test (as messages originate and return to the User's systems after going to an end device) and the team are there to assist with testing through this stage.

Test Assurance is a service to internal programmes and is specifically to make sure testing is done effectively across all environments by our service providers and programmes. There is a strong internal and external governance regime applied to this area so that any testing activity is fully scrutinised before any solution is allowed to move between environments and, finally into the Live Production environment.

#### Activities driving change in resource in RY24/25

The high variance in testing for RY24/25 is due to a very low baseline following Ofgem's disallowance of our RY24/25 forecast in our previous price control submission. You will see from our forecast incurred cost, that testing payroll is going to drop significantly and result in efficiencies

We expect to have 19 FTE, to respond to multiple emerging developments. Firstly, both system integrator contracts will need to be re-procured, due to be awarded in RY24/25. We have been supporting on the generation of commercial artefacts required, working with incumbents to describe SI services in detail, setting out ways of working and volumetrics. We will be introducing improved reporting on defects and incidents through Systems Integration Testing, User Integration Testing, and the live production environments, to improve 'shift left' testing approaches where more testing is performed in the early test stages, allowing for a better understanding of the causes behind production incidents. Over RY23/24, we saw a significant reduction in the number of defects found in UIT due to these techniques. UIT A dropped from 21 open defects to 6, whilst UIT B dropped from 14 to 5 open defects between June 23 and March 24. We expect these improvements to continue into RY24/25.

Finally, the team will continue to work with customers to explore how we could give customer access to both user test environments, without having to procure a new gateway. This will allow customers with only a UIT A connection to access UIT B via a Testing Services routing gateway to participate in new releases. This initiative has involved engagement via industry forums as well as individual engagement and will continue to do so. The initiative will improve project timelines and create a more cost-effective testing User Integration Testing process.

### 1.4.7. Recruitment

Variance	GL		RY23/24	RY24/25	RY25/26
Recruitment cost	RC	£m	0.185	0.006	-

As the technology function matured, the structure changed and during this period of change there was a lot of recruitment activity across the function. We do not expect this level of activity to continue for RY24/25. The sections below describe the main activities in this GL code.

### Directors

A Director of Architecture was appointed as interim and then subsequently our further search found a permanent employee for the position.

A Director of Integration was sought but no suitable candidates were found due to the high level of specialisation required for this role. This position has not been filled.

### Heads of Function

A Head of Cloud was recruited to lead on the Cloud Blueprint work and the standardisation of Cloud platforms across our service providers.

Head of Systems Engineering was appointed to implement and monitor the INCOSE standard for delivering technical change.

Head of the Systems Engineering Architect group was appointed to build a group of technical domain experts, supporting service line owners across the design build, and run operation.

Head of In-Life Change was appointed to control the technical change being delivered by our Service Providers into the live environment through maintenance and mandated release windows. This provides technical governance, linking into the Cross Functional Design Authority and the Operations change boards.

### General Recruitment

Recruitment continued throughout the period to deal with general staff attrition and address gaps in capabilities. The technology function also recruited contingent labour to deal with the peaks in project demand.

#### 1.4.8.

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement type
Training	NP	£m	0.057	0.165	0.167	-

The CTO function will be focusing on colleagues' development in the coming years and the CTO is implementing training for staff, increasing their technical and soft skills to deal with the future demand and changing system, scope, and needs. Systems Engineering training is ongoing, as is the use of the [REDACTED] modelling tool to baseline our system designs. Staff's professional certification is also planned, we expect that testing and architecture/engineering qualifications will increase staff morale, develop skills and in turn, reduce the staff turnover, as well as deliver better value for money outcomes for our customers.

Training is to focus on the following areas.

- Systems Engineering (INCOSE)
- [REDACTED] and ArchiMate
- Cloud Technologies
- Secure by Design (security)
- Engineering Certification
- Test and verification.

The aspiration of expanding DCC's training offering is both to improve performance, but also to reduce reliance on consultancy support.

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

At the end of RY23/24 CTO are recruiting permanent staff to reduce the reliance on contractors and consultancies for meeting programme demand. CTO are conscious that there needs to be in-house knowledge of specific DCC systems and technology domains and is working to delivery that capability into RY24/25 through training, recruitment, and more efficient ways of working. However, CTO also acknowledges that there will always be a need to meet peaks of demand is to look to introduce a flexible resourcing model in 2024 to meet the demands of programme work.

Procuring these services enabled CTO to deliver on its obligations to support the mandated programmes of change and build capabilities for the future through [REDACTED] Cloud Blueprint, Code Assurance, and the strategic advice from Forrester.

**Table 6. Material variance for CTO non-resource internal**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement type
[REDACTED] Systems Engineering	ES	£m	0.373	0.196	-	[REDACTED]
[REDACTED] SMETS2 Harmonised Support including P&C	ES	£m	0.819	0.826	0.826	
DCC Boxed	ES	£m	0.256	0.126	0.128	
EDMI Engineering Support	ES	£m	0.642	0.561	0.566	
[REDACTED] - Architecture Service	ES	£m	0.974	0.444	0.247	
[REDACTED] Consultant Resource	ES	£m	0.246	-	-	
[REDACTED] Test Assurance	ES	£m	0.392	-	-	
SMETS2 - [REDACTED]	ES	£m	0.609	0.459	0.464	
Zigbee	ES	£m	0.562	0.076	0.242	

## 1.6. External

### 1.6.1. [REDACTED]

In 2021, the Department of Energy Security and Net Zero gave a letter of non-objection to DCC enabling the start of the CH&N programme. Within this letter was a concern about the complexity of the programme and to address this CTO should adopt a Systems Engineering Approach to the technical delivery of the project. The Systems Engineering Standard (INCOSE 15288) is a framework to improve the quality of technical delivery of change with a complex system.

#### Driver for the

[REDACTED] is a standard recognised platform for enterprise architecture and was already in the DCC business. The [REDACTED] tool was chosen four years ago as the tool to provide the modelling solution, enabling the technology teams to model the baseline architecture and the technical and business processes surrounding it. This was one consultant employed through [REDACTED] so deliver a set of defined outcomes over the period of engagement. A direct award was made to [REDACTED] as they are experts in this field, and they are best placed to ensure effective configuration of the platform. DCC has required the [REDACTED] tool to be configured for our needs of the business. This was a fixed price and the day rates provided were benchmarked and found to be in line with market rates.

[REDACTED] tool has been in DCC for some time. In RY23/24 DCC started to implement the modelling and trained its staff on the use of the tool which shows in the increase in cost for training and licensing. The use of the tool is an important aspect of the work to implement and design baselines following the best Systems Engineering practices,



and it also links into the wider initiative of product and lifecycle management across DCC change. The ability to model the DCC Smart metering infrastructure gives a graphical representation of the design baseline with underpinning design documentation. Having a design baseline within the tool allows our architecture team to assess changes being proposed effectively and helps defect/incident investigations.

### Securing Value for Money

The procurement of the tool was done over 4 years ago. However, the procurement of the tool was performed on a competitive basis and [REDACTED] were found to be the most cost effective and would deliver the capability and capacity to deliver the necessary outcomes.

**Table 7: [REDACTED] - Summary of Procurement**

Procurement –	
Number of Initial invitations to tender	2
Number of Bids received	2
Number of Bids shortlisted / presenting	2
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

### 1.6.2. [REDACTED] SMETS2 Harmonised Support including P&C

[REDACTED] have been a Service Provider for DCC for several years and provide tools and services to aid DCC and its Users to test and develop products. The contracts concerning these tools and services were consolidated into one contract two years ago to make management easier and to gain efficiencies within the delivery teams. Ofgem will remember we discussed this activity in the RY22/23 clarification question process in relation to CAN192. Ofgem accepted these costs were economic and efficient as they have resulted in a significant reduction in support costs. These services are described in the table below. [REDACTED]

**Table 8: [REDACTED] Products and**

Product/Service	Description
Parse and Correlate (P&C)	<ul style="list-style-type: none"> <li>A tool that DCC users use to pass and receive messages to/from the DCC and is mandated under the Smart Energy Code</li> </ul>
GBCS for industry (GFI) test tool.	<ul style="list-style-type: none"> <li>A tool that represents DCC's interpretation of the Great Brain Companion specifications. The tool is mandated under the Smart Energy Code</li> </ul>



Product/Service	Description
DCC Boxed	<ul style="list-style-type: none"> <li>A test tool that represents the DCC's end to end services.</li> </ul>
File Signing Utility	<ul style="list-style-type: none"> <li>A tool that allows DCC to electronically sign messages and files.</li> </ul>
Handheld Terminal emulator and licences	<ul style="list-style-type: none"> <li>A tool that replicates the handheld terminals used by installers.</li> </ul>

#### Driver for the

The services are required to support DCC and its Users (some are mandated under SEC). Parse and Correlate (P&C) specifically is a vital part of the DCC systems and without it, Users would be unable to send messages to the DCC.

#### Securing Value for Money

██████████ were awarded the contract for P&C and the GFI tool when the Smart DCC was awarded its licence and since then the services ██████████ have provided have increased due to their proven expertise in interpreting the technical standards. Due to this, the procurement has traditionally been a ██████████ activity as there are no other suppliers capable of providing these services.

DCC is continually negotiating with ██████████ on the rate card and has achieved success through a benchmarking exercise. However, in RY24/25 DCC is engaging with the market to explore the implication of competitively tendering these services.

#### 1.6.3. DCC Boxed

The procurement was to update the testing tool "DCC Boxed" to accommodate the new 4G comms hub. The tool was the quickest and most cost-effective mechanism DCC had to deliver the proof-of-concept testing at the time.

#### Driver for the Procurement

DCC Boxed was adapted in line with the introduction of the new 4G CH&N Programme to allow a lab Proof of Concepts to be executed, as well as DCC users to carry out testing activity in the labs. In the future it could support with additional development CADG<sup>1</sup> and CH manufacturers to fully test their solution, minimise testing costs for mandatory activities, and ultimately reduce costs to customers.

#### Securing Value for Money

The work was performed through PR7878 using ██████████ to develop and build the DCC Boxed tool. DCC Boxed uses a component of the GFI tool to drive the way in which messages are formed and processed by devices. ██████████ have in-depth knowledge of this through their work with DCC. By extending the already proven GFI technology proved to be the best value for money to develop this product. Building a DCC boxed from scratch would have been time consuming and costly if another party was contracted to do it.

The PR process was followed with approvals from around the business and funding secured with the finance business partner. Industry governance was completed through the normal governance forums.

██████████ benchmarked rate card was used to price the specific resources utilised through the delivery of the project, with clear, defined work packages to a planned timescale. ██████████ did not charge for the discovery phase of the project to provide value for money.

#### 1.6.4. EDMI Engineering support

<sup>1</sup> CADG is an enhanced Consumer Access Device that allows Smart Meter Connectivity through an alternative technology to that of the traditional Wide Area Network.

DCC is putting in place standard contracts for the provision, maintenance, and support of Smart metering devices for use in Integration Testing on an ongoing basis to standardise service performance and reduce costs to customers.

This support will cover the Test Meters directly provided to DCC by EDM I which are being used in specific agreed DCC programmes in the PIT, SIT and UIT testing stages.

### Driver for the Procurement

The procurement was required to enable the end-to-end testing of the DCC's Smart Metering Ecosystem. Using real devices simulates more accurately the real-world environment of the solution and is less likely to result in missing defects that occur after a service goes live.

The contract provides meters, both electricity and gas and the engineering support to triage and fix any defects found in test. In addition, the verification of defects is vital so that DCC can be sure its system is working as designed and the right customer outcomes are being achieved.

### Requirements

The general requirement is for the Provision of Smart Metering Devices and the maintenance and engineering support of those devices in the DCC's testing labs. Devices are specifically:

- Electricity Smart Metering Equipment, single phase, single element (ESME)
- Gas Smart Metering Equipment (GSME)
- Pre-payment Interface devices (PPMIDs)
- In Home Displays (IHDs).
- Han Connected Auxiliary Load Control Switch (HCALS)
- Customer Access Device (CAD)
- Twin Element ESME
- Polyphase ESME.
- ESME with Auxiliary Proportional Controller (APC)
- Hydrogen / blended GSME
- Standalone Auxiliary Proportional Controller (SAPC)
- 5 Terminal ESME
- Hand-Held Terminals (HHT)

### Securing Value for Money

Under the SEC, DCC is mandated to test the systems with real physical devices. EDM I are one of the largest providers of devices in the UK smart metering roll out and have a high percentage of installed devices. It makes sense from a risk perspective to engage with EDM I directly (as DCC do with other device manufacturers) and test with their devices, ensuring that the systems work as designed by trying to closely replicate real work scenarios in the test labs.

Developing standard support contracts for test meters is part of DCC's overall plan test strategy to improve the quality and value for money of DCC's testing activities. In each case where we are putting in place a support contract, it will be with a named manufacturer delivering a bespoke product. DCC's enduring test approach which is a SEC document requires this commercial contract and those with other relevant device manufacturers.

DCC's goal is to get commercial support contracts with all manufacturers. Each manufacturer delivers a bespoke product. It cannot go through a bidding process due to the bespoke nature of the device and device knowledge and was therefore subject to a [REDACTED]. In practice this means DCC is subject to the agreed rate card day rates for engineering support that we have in place with EDM I.

#### 1.6.5. [REDACTED] – Maintenance, SMETS1 &

As with EDM I above, DCC is putting in place standard contracts for the provision, maintenance, and support of Smart metering devices for use in Integration Testing on an ongoing basis to standardise service performance and reduce costs to customers.

This support will cover the Test Meters directly provided to DCC by [REDACTED] which are being used in specific agreed DCC programmes PIT/SIT/UIT and SMETS1 test environments.

## Driver for the Procurement

The procurement was required to enable the end-to-end testing of the DCC's Smart Metering Ecosystem. Using real devices simulates more accurately the real-world environment of the solution and is less likely to result in missing defects that occur after a service goes live.

The contract provides meters, both electricity and gas and the engineering support to triage and fix any defects found in test. In addition, the verification of defects is vital so that DCC can be sure its system is working as designed.

## Securing Value for Money

Developing standard support contracts for test meters is part of DCC's overall plan test strategy to improve the quality and value for money of DCC's testing activities. In each case where we are putting in place a support contract, it will be with a named manufacturer delivering a bespoke product. DCC's enduring test approach which is a SEC document requires this commercial contract and those with other relevant device manufacturers.

DCC's goal is to get commercial support contracts with all manufacturers. Each manufacturer delivers a bespoke product. It cannot go through a bidding process and was therefore subject to a [REDACTED]. In practice this means DCC is subject to the agreed rate card day rates for engineering support that we have in place with [REDACTED].

### 1.6.6. [REDACTED]

[REDACTED] provided several technical resources to cover peak demand in programme activities and supplemented technology resources where there were gaps in capacity or capability.

## Driver for the Procurement

Through increased demand from programme activity that could not be met through in-house resource, [REDACTED] were required to provide technical resources to several change programmes. These resources would provide technical expertise, design, assurance, and stakeholder engagement services where there were insufficient internal resources available, and programmes could not be delayed. Without this the programmes would not be able to provide the necessary guidance to 3<sup>rd</sup> parties to develop the products required or be able to assure that what is delivered is correct or value for money. The programmes would also struggle to engage with stakeholders and gain support and backing for technical change through the various industry governance forums.

## Securing Value for

[REDACTED] were the successful bidder of a competitive tender. The tender was for IT architectural services for programme support. [REDACTED] provided services for 5 full time equivalent resources covering:

- Systems Integration Support x 1
- Engineering Support services x1
- Architectural Programme Support x 3

The contract specified the services, milestone deliveries for each area and defined timescales of when delivery was to be achieved. The value of the contract was £938k and was in business plan in RY23/24 as part of a general consultancy budget line. The costs incurred have been in line with this contract and no deviation has been seen.

DCC Procurement team's consultancy framework shows the agreed day rates of [REDACTED] for End-to-End Architects and £[REDACTED] for the Technical Support Analyst. The benchmarks from DCC reward team are £[REDACTED] (End to End Architects) and £[REDACTED] (Technical Support Analysts) on a contractor basis. As there are 4 Architects, and only 1 analyst the costs over the period are comparable between contractors and consultants.

These five resources are being recruited for on a permanent basis to cover gaps in knowledge and capability CTO has within the team. However, it could take up to 3 months to recruit contractors (and longer for permanent staff) and so, using consultants for "burst capacity" is cost and time efficient for assignments such as this. Once the consultants have provided this near-term support, we expect them to hand over to the permanent staff in August/September 2024 for the enduring workload post project closure, retaining knowledge of the specific technology domains to support the live services and supporting the building and upskilling of the in-house team.

We will always need to use some consultancy support due to the benefits of accessing a flexible resourcing model for this kind of “burst capacity”, where it would not make sense to recruit and then exit contractors or permanent resource which also bring a level of management overhead. However, where possible we are seeking to bring resource in house and transfer staff between projects, reducing the need for recycling short-term resources.

During RY23/24, CTO experienced unplanned/unexpected workload. In the latter half of the year, project Sapphire was established at short notice to address the instability of one of service providers. The project involved a re-platforming of key infrastructure and took several resources and without the flexibility of the consultancy CTO would not have been able to deliver in its commitments.

Without Networkology’s support, CTO would not have been able to build the technical management function nor, support the DCC programmes as there was insufficient resources at that point to support the activities needed. The resources within CTO did not have the necessary skills in Systems Integration or specific skills in the programme areas where technology was being changed/upgraded. SMETS1 was a prime example where skills across the industry are low and need to be purchased to provide the capability.

Table 9: [REDACTED] Summary of Procurement

Procurement – Architectural Resources [REDACTED]	
Number of Initial invitations to tender	6
Number of Bids received	6
Number of Bids shortlisted / presenting	3
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

Table 10: [REDACTED] Commercial

Company Name	Price Quoted	Ranking (will auto-fill)
[REDACTED]		

1.6.7.

Following the CTO team's restructure at the start of 2023, two directors left DCC requiring an urgent need to appoint an interim Director of Architecture to drive forward several strategic programmes (DSP and FSM). Due to the nature of these initiatives, the CTO could not wait for the permanent Director to be appointed.

#### Driver for the Procurement

DCC required an individual with deep DCC system knowledge, who understands the technology, the challenges, and the stakeholders such as DESNZ and the SEC User Community, to deliver the setup of a Design Authority, to oversee the following areas:

- The move to cloud services of the DSP.
- The introduction of the 4G comms hub, and disaggregated technology stack.
- The introduction of MHHS.
- The development of a technical strategy of Smart Metering to 2030 and beyond.
- Act as the central decision-making body to support DCC and the whole Smart Metering ecosystem in key Architecture and Design decisions.

The initial phase of the assignment was to set up the team and create a foundation for the new Design Authority including establishing its position and authority within DCC and external parties, namely DESNZ and the SEC User community.

#### Securing Value for Money

This was a competitive tender process, and the [REDACTED] partnership were chosen for the value for money and the skills of the individual presented.

**Table 11: [REDACTED] - Summary of Procurement**

Procurement – ISM Transformation	
Number of Initial invitations to tender	9
Number of Bids received	9
Number of Bids shortlisted / presenting	9
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

#### 1.6.8. [REDACTED] - Test Assurance

The Technology Assurance function uses a combination of DCC resource and external contractors to deliver testing and test assurance across programmes and operations. This is standard practice where demand for support fluctuates across years.

DCC piloted the use of [REDACTED] on the CH&N programme between July and September 2023 to support the wide range of programme activities undertaken in the year.

#### Driver for the Procurement

[REDACTED] was [REDACTED] procured to facilitate provision of test assurance resources to supplement internal capacity due to demand increases because of an increased volume of programme activity. Test assurance resource is required throughout the project lifecycle to assure the quality of test basis artefacts such as requirements and design artefacts, to agree the approach to testing and subsidiary artefacts with our internal and external stakeholders, to assure the testing of DCC service providers and systems integrators, and to agree the completion of test stages and phases with our internal and external stakeholders via the appropriate governance forums.

CTO have limited permanent headcount which is insufficient to absorb the short/medium-term increase in demand from programmes. The anticipated engagement duration of an individual [REDACTED] consultant in fulfilling the additional demand is less than 12 months, therefore the recruitment of permanent resource is not a cost effective or efficient solution.

## Securing Value for

A [REDACTED] procurement exercise was carried out to provide a flexible resourcing model that could be drawn upon on a T&M basis to meet the peaks in demand and allow for agile rotation of resource ensuring appropriately skilled individuals were allocated to specific work packages.

Six bidders were invited to tender for the contract, with four bids received. [REDACTED] were ranked first in assessment against both the technical and commercial criteria. The [REDACTED] rate card was on average [REDACTED] % more cost effective than other bidders, with a [REDACTED] average discount on the rate card achieved at BAFO.

The [REDACTED] rate card represents value for money since it is on average [REDACTED] more cost effective than the use of contractors. It is also on average [REDACTED] % more cost effective than the use of permanent resource. These calculations exclude recruitment costs, and redundancy costs in the case of permanent resource.

[REDACTED] were appointed on a 12-month term, with an option to extend for a further 12 months. The contract is exclusively T&M with no committed expenditure, and a 5-working day termination clause, allowing flexibility to change resourcing structure or approach.

This resourcing solution therefore proved to be the most cost-effective option as assessed against the use of contractors or the recruitment of permanent employees, both of which would have incurred significant additional costs for customers.

**Table 12: [REDACTED] - Summary of Procurement**

Procurement – [REDACTED] Resourcing for Test Assurance (DCCT0350)	
Number of Initial invitations to tender	6
Number of Bids received	4
Number of Bids shortlisted / presenting	2
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

### 1.6.9. Zigbee [REDACTED]

Emulators are a tool used by DCC when testing functionality yet to be implemented by real devices. For example, the GBCS4.2 specification. Unlike real devices, emulators do not need to go through the expensive and time-consuming process of getting NCSC security approval. This makes them a timely and value for money option for testing new functionality of the Smart Metering Systems. [REDACTED] have been successfully providing device emulators for DCC for several years.

## Driver for the Procurement

The emulators are required under the SEC to enable DCC to test their end-to-end systems where real physical devices are either not available or not at the correct specification to cover the full scope of testing.

The emulators procured from [REDACTED] Ltd are used across all DCC programmes that require testing against device specifications. This includes all in life change programmes such as SEC releases, GBCS updates and MHHS. The expenditure from DCCs technology office is focused on engineering support from [REDACTED] ensuring defects found on the emulators during DCC testing are triaged and fixed by the [REDACTED] R&D function within a defined Service Level Agreement so not to impact delivery.

## Securing Value for

The procurement for [REDACTED] Ltd was a [REDACTED] as [REDACTED] are the only company providing all-purpose SMETS supporting and compliant device emulators. Some companies offer specific emulators for items like GBCS and Comms Hubs, however [REDACTED] offer the full range of functionality to meet the needs of DCC. This includes all device variants, compliance with the latest SMETS, GBCS, Zigbee and DCC User Interface Specification (DUIS) standards, as well as an established and efficient way of integrating into DCC governance for assurance expectations, reducing the overhead of creating additional documentation.

DCC negotiated reduced rates on renewal of the service with [REDACTED]. Their rates are benchmarked and in line with market rates (if not cheaper).

Without emulators and engineering support from [REDACTED] vital DCC programmes would not be able to validate their code changes impacting devices nor identify and fix defects effectively. This would put DCC in breach of the SEC. The cost of delaying programmes even a few days due to defects not getting resolved would far outweigh the cost of engineering support from [REDACTED]. In simple terms, DCC requires emulators and engineering support to enable smooth delivery of large-scale programmes.





# Security

**Version: 1.0**  
**Date: 31.07.2024**

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# 1. Security Cost

## Summary

### What is this and why is it important?

Operating a secure and resilient service is one of DCC's core obligations, and fundamental to delivering good customer, and consumer, outcomes.

The Security function successfully kept our network secure in RY23/24, even as the volume of sensitive information we manage increased to 1.5bn messages a month. Threats to Critical National Infrastructure (CNI), and related national networks such as DCC's systems remain high in the current geopolitical climate. New and sophisticated threat vectors, such as the application of Artificial Intelligence by state and criminal actors, mean it is imperative we continue to invest in cyber defences across our network that are robust and commensurate with the threat we face.

### RY23/24 activities and costs

The total internal costs in the Security function were £6.9m, with an overall variance of £0.7m.

The cost variances primarily relate to two external service provider contracts:

- Conduct independent security assessments of our service providers. This is required under the Smart Energy Code, and provides additional insight into security posture and capabilities to ensure we can engage as proactively as possible across the supply chain, and
- Develop a Governance, Risk, and Compliance (GRC) Tool, in line with our broader efforts to standardise and automate the way we work, driving greater accuracy, visibility and control across the organisation. This is an important move to best practice in our security regime.

Payroll costs were lower than Ofgem's baseline (by £0.2m), despite team reorganisation and the transfer of the Business Continuity and Disaster Recovery team to Security.

During the year, we have provided 24/7 monitoring of the DCC network for security events and are proud to have obtained CREST accreditation for our Security Operations Centre (SOC) which demonstrates it operates at a standard recognised world-wide. This makes the DCC only one of 10 internal SOC's worldwide to hold this certification.

### Future activities and costs

For RY24/25, we are forecasting internal costs of £7.1m, largely stable compared to RY23/24. We anticipate increasing the event monitoring carried out by our SOC (to include the Trusted Service Provider, the Dual Control Organisation and Data Services Provider) in RY24/25, making our return to planned resourcing levels critical.

In addition, the £2.5m variance in our forecasted payroll costs for RY24/25 is due to the lower baseline we have for that year following our price control submission in RY22/23.

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the programme purpose and our resource and non-resource costs.

## Function variance by

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

Baseline			Ry23/24	Ry24/25	Ry25/26
<b>Security</b>		<b>£m</b>	<b>6.130</b>	<b>4.739</b>	<b>-</b>
Payroll costs	PR	£m	4.411	3.473	-
Non-payroll costs	NP	£m	0.107	0.113	-
Recruitment	RC	£m	0.117	0.011	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.782	0.693	-
Internal services	IS	£m	0.262	0.197	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.315	0.115	-
Office Sundry	OS	£m	0.137	0.137	-
<b>Incurred</b>			<b>Ry23/24</b>	<b>Ry24/25</b>	<b>Ry25/26</b>
<b>Security</b>		<b>£m</b>	<b>6.850</b>	<b>7.096</b>	<b>7.195</b>
Payroll costs	PR	£m	4.292	5.971	6.126
Non-payroll costs	NP	£m	0.140	0.080	0.080
Recruitment	RC	£m	0.168	0.002	0.001
Accommodation	AC	£m	0.129	0.120	0.122
External services	ES	£m	1.330	0.719	0.647
Internal services	IS	£m	0.063	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.689	0.205	0.220
Office Sundry	OS	£m	0.039	-	-
<b>Variance</b>			<b>Ry23/24</b>	<b>Ry24/25</b>	<b>Ry25/26</b>
<b>Security</b>		<b>£m</b>	<b>0.720</b>	<b>2.358</b>	<b>7.195</b>
Payroll costs	PR	£m	-0.119	2.498	6.126
Non-payroll costs	NP	£m	0.033	-0.033	0.080
Recruitment	RC	£m	0.051	-0.010	0.001
Accommodation	AC	£m	0.129	0.120	0.122
External services	ES	£m	0.548	0.026	0.647
Internal services	IS	£m	-0.198	-0.197	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	0.373	0.090	0.220

Office Sundry	OS	£m	-0.097	-0.137	-
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### Function Variance by Sub-

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

Baseline			RY23/24	RY24/25	RY25/26
<b>Security Payroll Costs</b>	<b>£m</b>		<b>4.411</b>	<b>3.473</b>	<b>-</b>
CISO Office	£m		0.992	0.647	-
Security Architecture and Assurance	£m		2.227	2.074	-
Security Governance Risk and Compliance	£m		0.552	0.087	-
Security Operations	£m		0.640	0.665	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Security Payroll Costs</b>	<b>£m</b>		<b>4.292</b>	<b>5.971</b>	<b>6.126</b>
CISO Office	£m		0.569	-0.066	0.362
Security Architecture and Assurance	£m		1.104	1.525	1.778
Security Governance Risk and Compliance	£m		1.272	1.621	1.755
Security Operations	£m		0.798	1.427	1.520
Security Demand and Culture	£m		0.109	0.236	0.316
Cyber Fusion Centre Programme Resource	£m		0.240	0.413	0.396
Enterprise Security Programme Resource	£m		0.118	-	-
OCA Manufacturing Pack Programme Resource	£m		0.082	0.815	-
Variance			RY23/24	RY24/25	RY25/26
<b>Security Payroll Costs</b>	<b>£m</b>		<b>-0.119</b>	<b>2.498</b>	<b>6.126</b>
CISO Office	£m		-0.423	-0.713	0.362
Security Architecture and Assurance	£m		-1.123	-0.549	1.778
Security Governance Risk and Compliance	£m		0.720	1.534	1.755
Security Operations	£m		0.158	0.762	1.520
Security Demand and Culture	£m		0.109	0.236	0.316
Cyber Fusion Centre Programme Resource	£m		0.240	0.413	0.396
Enterprise Security Programme Resource	£m		0.118	-	-
OCA Manufacturing Pack Programme Resource	£m		0.082	0.815	-

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and

Our purpose is clearly defined as ‘We protect Britain’s Smart Meter System’. The Security function provides security assurance, best practice direction in cyber security, and operates the Smart Meter System cyber security defence that resides in our Manchester based Security Operations Centre (SOC). This is critical to the maintenance of a reliable and stable system at scale. The scope of the function includes all aspects of securing the DCC Total System, and engagement with key external stakeholders on all security matters. The function does this by providing the following services:

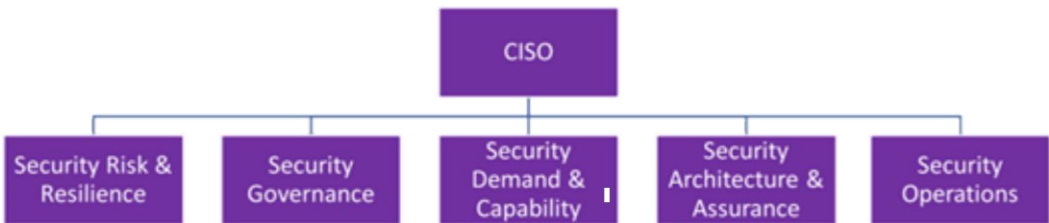
- Ensuring the Smart Meter platform and the new programmes being added to it are secure, resilient, and meet with the requirement and obligations set out in the Licence and Smart Energy Code.
- Addressing the changing threats to our large-scale and complex systems through a risk-based approach in line with industry and regulatory guidance and best practice.
- Providing security assurance to stakeholders and our customers in line with our prescribed Trust Model.
- Providing threat led defence and assurance for the DCC internal Enterprise IT systems.
- Monitoring and management of security events captured by the SOC, expanding to encapsulate the full smart meter ecosystem, becoming a single viewpoint across the estate – then known as the Cyber Fusion Centre, while coping with turbulence in the broader energy market.
- Actively engaging on the SEC Privacy Committee, Security Sub-Committee and Smart Metering Key Infrastructure Policy Management Authority (SMKI PMA) providing critical input for the industry and taking onboard requirements from customer representatives. This underlines our commitment to consistently take on board stakeholder feedback.
- Supporting customers with challenges and new initiatives where compliant with License Condition 11
- Sharing Security Intelligence from the DCC Security Operations team with industry via the SSC and NCSC sharing platform CiSP, providing the benefit of our expertise to customers.
- Build and maintain a strong security culture for DCC staff at all levels.

### 1.2.1. Cost Centre

The structure of the Security cost centre changed during RY23/24 to reflect the transfer of ownership of two functions from Operations. Business Resilience (Business Continuity & Disaster Recovery) and the SMKI Registration Authority (SMKI RA) transferred to Security in April 2023.

From March 2024, the Enterprise IT (EIT) function returns under the responsibility of the CISO. In addition, the Director of Security role will not be replaced following their promotion to the CISO position in March 2024, creating efficiencies and better value for money for our customers. Efficiency opportunities now exist to use resources in EIT and Security to perform complementary activities and potentially offer opportunity to reduce costs in the coming years.

Figure 1: Security cost centre organisational



The team structure is set out in further detail in the following table.

**Table 1: Description of Security Sub-**

Sub Team structure reported in RY22/23	Current Sub-team RY23/24	Description
CISO Office	CISO Office	<ul style="list-style-type: none"> <li>The CISO Office consists of the Chief Information Security Officer (CISO) and Director of Security roles which oversee the strategic direction of the function whilst remaining accountable for delivery. The Director of Security role ceased in March 2024.</li> </ul>
Security Governance, Risk and Resilience (GRC)	Security Risk and Resilience	<ul style="list-style-type: none"> <li>The Risk &amp; Resilience team are focused on creating and managing the security governance and policies across DCC, maintaining DCC's certification against ISO 27001 (a key component of our Licence to operate) along with continued certification across ISO 22301, 9001, tScheme along with compliance requirements from Capita. The team are also responsible for ensuring that DCC remains compliant with the latest Information Security policies. They enable regulatory compliance across the supplier landscape related to Security including the continued secure operation within the Licence and SEC obligations across the Total System.</li> <li>This team is responsible for the central management of security risk across DCC in alignment with SEC Section G and DCC policy.</li> <li>The BCDR (Business Continuity and Disaster Recovery) team (a new addition from Operations in 2023/24) is responsible for maintaining organisational continuity and resilience in addition to driving Industry testing to ensure the Total System services are resilient and robust for consumers. They are also responsible for our Crisis exercising, Policy and management.</li> <li>During RY2024/25, this overarching team will also absorb the Security Governance pillar (described below).</li> </ul>
(New)	Security Governance	<ul style="list-style-type: none"> <li>The Security Governance team includes the Information Governance and Data Protection sub-team that is primarily focused on Information Governance and Management. It also encompasses all responsibility for the Data Protection Act 2018 and GDPR.</li> <li>The SMKI Registration Authority (RA) has key responsibilities including verifying identities and maintaining a secure registers of users. In addition, they generate certificates, managing key ceremonies, and are industry SME on the operation governance. Other activities within this area include Security policy and standards strategy and maintenance of core policies, developing and drafting policies and standards.</li> </ul>
Security Operations	Security Operations	<ul style="list-style-type: none"> <li>Security Operations manages day-to-day Security activities on a 24*7*365 basis along with Security Service provision and customer liaison. It also acts as focal point for incidents and threat intelligence through the Cyber Fusion Centre.</li> </ul>
Demand and Delivery	Security Demand & Capability	<ul style="list-style-type: none"> <li>This team manages the resource demand for Security including a particular focus on the skillsets and building the cyber talent pipeline (such as Apprentices). From RY24/25, the team also</li> </ul>

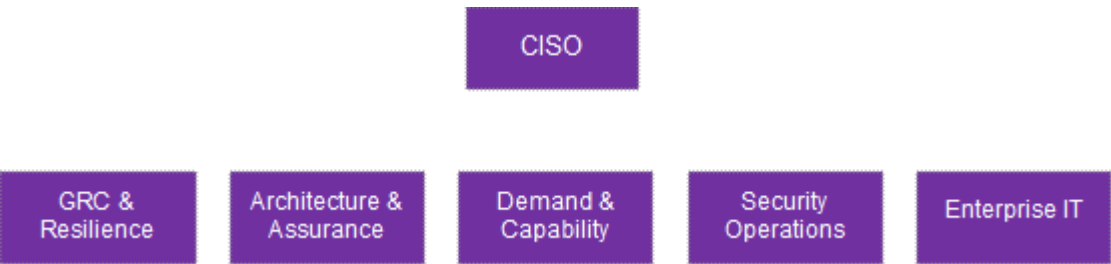


		provides training to DCC colleagues and raises awareness of security culture.
Security Architecture	Security Architecture & Assurance	<ul style="list-style-type: none"> <li>This critical function sets the technical blueprints for compliant architecture with a strong focus on Cloud solutions and alignment with National Cyber Security Centre (NCSC) guidelines. This team are the technical expertise in topics such as cryptography and Public Key Infrastructure (PKI) and is core to analysis such as the upcoming impacts of Quantum Computing. In addition, they cover project and programme assurance along with architectural designs for secure operation and development.</li> </ul>
EIT	Moved from finance cost centre	<ul style="list-style-type: none"> <li>This function shifted to sit within CISO in March 2024 (at the end of RY23/24). It is covered within the Finance and People chapter of the Price Control submission.</li> <li>This team provide full support and implementation skills for DCC IT including Microsoft 365, end-user computing and the Amazon Web Services (AWS) cloud tenant that houses the DCC reporting databases.</li> </ul>

### 1.2.2. New Structure for 2024/2025

To increase accountability and provide cross team efficiencies the Enterprise IT team will move into the Security Function. The senior team structure will be modified with Security Governance returning under the Director of Risk and Resilience and more traditional GRC configuration. This will aid in providing better opportunities to share workloads and develop the next level of process maturity required to meet DCC strategic aims through 2024 to 2027.

Figure 2: Security cost centre organisational structure



### 1.3. Cost centre variances

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

Table 2: Variance from the RIGs by GL

	Security			RY23/24	RY24/25	RY25/26
Total Baseline	Total Security	£m		6.130	4.739	-
Total Incurred	Total Security	£m		6.850	7.096	7.195
Total Variance	Total Security	£m		0.720	2.358	7.195

	Payroll costs	PR	£m	-0.119	2.498	6.126
	Non-payroll costs	NP	£m	0.033	-0.033	0.080
	Recruitment	RC	£m	0.051	-0.010	0.001
	Accommodation	AC	£m	0.129	0.120	0.122
	External services	ES	£m	0.548	0.026	0.647
	Internal services	IS	£m	-0.198	-0.197	-
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	0.373	0.090	0.220
	Office Sundry	OS	£m	-0.097	-0.137	-

### Payroll Costs

The overall payroll costs variance is a cost reduction of £0.119m for RY23/24, which is expected to increase to positive cost variance of £2.498m in RY24/25 and £6.126m in RY25/26.

**Table 3: Function incurred by**

Variance			RY23/24	RY24/25	RY25/26
<b>Security Payroll Costs</b>	<b>£m</b>		<b>-0.119</b>	<b>2.498</b>	<b>6.126</b>
CISO Office	£m		-0.423	-0.713	0.362
Security Architecture and Assurance	£m		-1.123	-0.549	1.778
Security Governance Risk and Compliance	£m		0.720	1.534	1.755
Security Operations	£m		0.158	0.762	1.520
Security Demand and Culture	£m		0.109	0.236	0.316
Cyber Fusion Centre Programme Resource	£m		0.240	0.413	0.396
Enterprise Security Programme Resource	£m		0.118	-	-
OCA Manufacturing Pack Programme Resource	£m		0.082	0.815	-

### Variance by Sub-

Three areas of payroll were variant in RY23/24 – Security Governance Risk and Compliance, Security Operation and Cyber Fusion Centre Programme Resource. Overall payroll cost variance in RY24/25 is driven by above-baseline costs in Security Governance Risk and Compliance, as well as smaller variances in Security Operations, Security Demand and Culture, Cyber Fusion Centre Programme Resource and OCA Manufacturing Pack Programme Resource. The same teams (with the exception of OCA Manufacturing Pack Programme Resource are also forecast to be materially variant in RY24/25 and RY25/26.

## 1.4. Drivers for Variance – Resource

### 1.4.1. Security Governance, Risk, Compliance (GRC) and Business Resilience

The Governance, Risk and Compliance (GRC) and Business Resilience teams are essential to not only ensure DCC meets its regulatory security and compliance requirements, manages risk within its business and industry appetite but also for ensuring that the overall DCC organisation and Total System are secure and resilient for consumers. The

two teams collectively deliver day-to-day security and resilience advice and awareness activities in addition to managing several certifications including, DCC's ISO 27001, ISO 22301 and ISO 9001 certifications.

The GRC team are responsible for the Competent Independent Organisation (CIO) annual security assurance assessments as mandated by the SEC. Each colleague is responsible for the management of at least three to four Suppliers of the Total System and facilitate the process through the CIO assessments to completion of remediation plans along with representing that Supplier to SECAS and the SEC, a regulatory and licence requirement. They also manage any internal audits along with interfacing with several external audits conducted annually. They perform Risk assessments, including on supply chain, and advise on internal change programs from a security standpoint.

DCC is required to have tScheme certification against each separate PKIs (Public Key Infrastructure). In the wake of the final SMETS1 cohort, we now have additional auditing and assessments required that now support three distinct certifications. The GRC team have responsibility for facilitating and reporting on all elements of tScheme compliance, this involves considerable organisation and detailed analysis.

The Business Resilience team joined DCC Security from DCC Operations in 2023 and provide Business Impact Assessment (BIA) governance and implementation, enabling DCC as an organisation to prioritise its recovery effort to critical applications and services for DCC and the smart meter network. They are also responsible for annual failover testing with the Service Providers and are specific to the services being delivered by those suppliers, including ensuring that the smart meter network remains resilient in line with prescribed level for consumers. In addition, the team highlights any risks or weaknesses found as part of testing to improve the overall resilience of the systems. They provide expert advice and guidance to the DCC internal Commercial team regarding contractual obligations for our suppliers and regulatory requirements needing to be included to ensure the resiliency of services for consumers and compliance with our regulatory requirements outlined in the SEC and our Licence.

#### **Activities driving change in resource in**

In RY23/24, the BCDR team were transferred from the Internal DCC Operations team back into the Internal Security Risk and Resilience team, therefore increasing Payroll costs in the function (but reducing the same amount from Operations). Delivered in this period were detailed Failover plans and activities with industry, testing the resilience of the Total System Service Providers ensuing a resilient service for consumers along with Certification against ISO 22301 the Business Continuity Standard, specifically required by the SEC a compliance requirement. This increase in FTE accounts for the variance against baseline as the move was not forecast in the original plans for the GRC team.

For the GRC team in RY 23/24 - There was an increase in our Total System Service Providers transitioning to BAU during 23/24 and it became necessary to increase the capabilities within the GRC team. Managing the Total System Service Providers became a key part of the role during this time, so as the Analysts resigned from the DCC Security organisation, the opportunity was taken to replace these roles with more experienced Information Security Managers. This was to ensure a secure and stable service to the business and our customers. A new organisational structure was introduced with a new Director Role created to drive the combined GRC Security and Business Resilience teams in their delivery and to build a unified Risk capability across the DCC organisation and Total System Service Providers.

#### **Activities driving change in resource in RY24/25 and**

For the GRC Team – RY24/25 will include building and maturing the Security Risk capability across DCC to enable a clearer understanding of Risk and Opportunity across the Total System, to ensure prioritisation of investment into the areas where the most risk may reside both across DCC as an organisation and the Total System.

For the Business Resilience team, RY24/25 will include building and maturing the Crisis management capability across the smart meter network and DCC as an organisation. This will result in running Crisis management exercises across the supplier base of the smart meter network, including the regulator and the SEC where applicable. This ensures visibility across the smart meter network, highlighting any areas of weakness or needing improvement and ensuring remediation where it is appropriate to delivering value and resilience for consumers.

The Information Governance and Data Protection Team will join the GRC and Business Resilience function in RY24/25. The team is primarily focused on Information Governance and Management. It also has responsibility for the Data Protection Act 2018 and GDPR. A key activity in RY24/25 and into RY25/25 is the rolling out of a comprehensive information management strategy across the DCC organisation, with a strong focus on refining the management of unstructured information and the implementation of new controls to reduce the risk of data leakage.

We had a Risk Manager role vacant in RY23/24, as well as a leaver in GRC during the period. These are roles that have been filled already in RY24/25. Our forecast for RY25/26 does not include the small number of staff who will be allocated out to programmes. We anticipate a similar headcount as RY24/25 with an uplift in total costs in line with our pay award rates.

### 1.4.2. Security Operations

This team consists of the SOC who provide continuous cyber security monitoring and incident response; the Security Engineers who manage DCC operational security controls and tooling, including maintaining the DCC SIEM platform; and the Security Business Partners who provide the operational security connection between DCC and the Service Providers to that security practices and obligations are being met on a day-to-day basis such as managing new vulnerabilities and threats to them and the DCC system..

As more Service Providers are onboarded, there is a corresponding impact on this team and required resources.

#### Activities driving change in resource in

During this period, we managed for the first time to get full resourcing employed to support the 24/7 rota with sufficient resilience as per the plan that was set in motion the previous year. This core team is sufficiently resourced but must be supported by second level engineering and the Security Business Partners who manages day-to-day security operation relationships and provide reporting and threat intelligence material.

This team fulfils the Detect, Respond, and Recover requirements of the NIST Cyber Security Framework and work closely with governance teams and the programme change teams to ensure the maintenance of the security posture and alignment to SEC Section G. They have been successful in identifying potential data leakage and thwarting phishing attempts on several occasions. In addition, they have identified significant improvements that the ECoS Service Provider needed to put in place to increase effectiveness of their SOC. Furthermore, this team has implemented the first internal AI proof-of-concept which shows significant opportunities to provide data access efficiencies and increase accuracy when retrieving information from a knowledge management system.

#### Activities driving change in resource in RY24/25 and

Whilst the planned headcount is not at variance with the business plan, there are minor improvements to the report lines planned to address issues with numbers of reports into a single manager. There is also a move to make the SMKI Registration Authority part of this team as they are fundamentally an operational sub-team so there is more synergy between the two.

### 1.4.3. Security Demand and Culture

The Security Demand and Culture function provides the resource management planning and future skills planning for the CISO. This includes junior talent roles, and as such a Degree Apprentice was resourced in August 2023, building a pipeline for SOC Analyst positions in RY24/25.

#### Activities driving change in resource in RY24/25 and

Further talent pipeline work continues in RY24/25 and beyond with a new intake of two Degree Apprentices in September 2024 on a four-year training programme. This helps to build the key skills pipeline we need for the future, whilst reducing cost to recruit.

A permanent Security Culture and Awareness Manager joins in June 2024 with responsibility for maturing the security culture at DCC at all levels of the business. The role will also cover Business Resilience, Data Protection, and Cyber awareness and ensure value for money on training costs, whilst skilling the department for the future. This is essential to stay abreast of increasing social engineering attacks, such as phishing and ransomware.

A permanent Security Business Planning Analyst will join the team in RY24/25 to provide resource management governance across both security and EIT, provide a central point for purchase management, and support arrangements for the transition for ex-ante.

### 1.4.4. Cyber Fusion Programme Resource

This programme is the continuation of the DCC collecting security event logs from all its Fundamental Service Providers to enable a total view of all security events across the entire ecosystem. The need to see the whole

picture in a timelier manner (currently this can be days after an event) is becoming more pressing as we see more sophisticated attacks occurring in similar industries. This will be additionally important as more disaggregation is anticipated with the new CH&N go-live in March 2025 and the new DSP coming up in the near future, both of which increase the number of Service Providers.

#### **Activities driving change in resource in**

The costs in this programme are to fund Change Requests (analytical and management support) that facilitate the secure forwarding of security logs to the DCC from Service Providers.

Original aims to take additional level 1 responsibilities were re-evaluated and scope reduced, therefore this programme was re-scoped at the end of the years to be simply a window on the smart meter network providing a critical backstop to complex attack vectors and broad anomalous activity within and on the perimeter of Smart Metering.

This is a unique function currently but provides opportunity to align with the Technical Operation Centre and achieve real efficiency options once this is fully implemented.

#### **Activities driving change in resource in RY24/25 and**

We will continue to add existing Service Providers into the Programme Resource for the next 18 months, and plan for the addition of new Service Providers as programmes go live.

Overall, this is being restricted to minimal expenditure to carefully scope the feeds, build mechanisms for timely automated log shipping, and ensure resilience. Due to the very efficient deployment of SIEM at the DCC, the routes to achieving this have been achieved at the best prices available on the market for these activities. This is regularly tested with vendors and through assessment with indicators such as [REDACTED] analysis.

### **1.4.5. OCA Manufacturing Pack Programme Resource**

The manufacturing pack is used by all device manufacturers to ensure that their products can be installed onto the DCC networks. It contains all of the default security credentials to allow this installation to happen. The current manufacturing pack was originally issued in 2016 as the basis for the original deployment, and despite a few minor changes, has remained the same since then.

The current pack contains security credentials for which validity will expire in 2026 unless DCC takes action to renew these. To continue with these expired certificates after 2026 would lead to potential delays in commissioning and failure of devices connecting to the network. It is therefore essential that these are refreshed with new certificates sufficiently early enough to introduce into manufacturing lines.

DCC are proposing that a new manufacturing pack be produced that is backwards compatible.

A SEC modification has already been agreed and submitted to facilitate longer expiry timescales on the specific default manufacturing certificates, which will avoid the need to generate another pack until 2040.

The scope of this programme will be as follows:

1. Establishment of all future security credential management processes.
2. UIT testing of Install and Commission (I&C) and operation end-to-end on old manufacturing devices using the new manufacturing pack.
3. Procurement of refurbished devices for production I&C that use the new manufacturing pack.
4. Running of the Production I&C Pilot.
5. Issuance of ECOS/New Manufacturing pack to industry for all devices.

The outputs of this initiative will have a direct impact on customers by making savings due to:

- not having to scrap the current stock they have built using the 2016 Manufacturing Pack, and,
- avoiding having to swap out any other devices that are in operation and unable to migrate to ECOS.

The manufacturing pack has never been generated during the normal operation of the DCC and therefore this a new event, and this represents an unplanned event which is required to maintain compliance with the SEC.

### Activities driving change in resource in

We expect this project to be complete by the end of RY24/25, with the delivery of a Manufacturing Pack. These costs will be associated with the close-out of this, as well as the testing before the pack is distributed to manufactures of HAN devices, such as meters. The role of Security will be to oversee the delivery to ensure it aligns with DCC Security policy and SEC requirements and, as necessary, update SSC/PMA. The Security assurance team may also be called upon to provide assurance over the final output of the process.

#### 1.4.6. FY25/26 forecasts

Across all our payroll teams, no baseline has been set for RY25/26. We have cost variances for four sub-teams that do not also have a variance in RY24/25. As shown in the table below, we forecast equivalent costs for RY24/25 and RY25/26, and are proposing some growth in headcounts or responsibilities, as mentioned in the sections above.

Incurred			RY24/25	RY25/26
CISO Office	£m		-0.066	0.362
Security Architecture and Assurance	£m		1.525	1.778
Security Governance Risk and Compliance	£m		1.621	1.755
Security Operations	£m		1.427	1.520
Security Demand and Culture	£m		0.236	0.316
Cyber Fusion Centre Programme Resource	£m		0.413	0.396

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

During RY23/24, there were two individual procurements within Security that had material variance, (i.e., over £0.15 million). During RY25/26, we forecast one procurement will have material variance. The breakdown is provided below.

**Table 4: Material Variance for Non-Resource**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement type
CIO	ES	£m	0.411	0.348	0.348	
GRC Tool	IT	£m	0.311	0.060	0.060	
Software	IT	£m	0.103	0.125	0.160	

### 1.5.2. Year 1 and 2 CIO Call Off

The Yearly Competent Independent Organisation assessment is an activity that DCC must conduct against their Service Providers in compliance with the SEC provisions in SEC Section G9.3 b) i):

*G9.3 The actions specified in this Section G9.3 shall be actions taken by the DCC to:*

- procure the provision of security assessment services by the DCC Independent Security Assessment Service Provider (as further described in Section G9.4);*
- ensure that the DCC Independent Security Assessment Service Provider carries out Security Assessments for the purpose specified in Section G9.2.*



This annual independent assessment by the DCC Independent Security Assurance Service Provider (also known as the DCC Competent Independent Organisation (DCC CIO) is conducted across all Total System service providers including DCC, this is around 12 in number.

If these assessments are not delivered, the DCC may be seen as breaching the SEC and therefore its Licence conditions. It is the only mechanism providing independent validation of the Security and resiliency of the Total System for consumers. We have no other recourse other than to use external agencies to deliver this due to the requirement for the assessor to be independent.

The assessment focuses on controls and obligations contained within the SEC and the Licence. These controls and obligations are described in detail in the DCC SCF Part 1 DCC Assessment Methodology and DCC SCF Part 2 DCC Assessment Guidance (SCF). They focus on SEC Sections G and H and License Condition 8. There are around 116 controls, but each supplier scope is decided based on the services and role they perform. As DCC delegates elements of operation of the DCC Total System to various SPs (Service Providers), the DCC CIO also independently assess SPs the controls specific to them as detailed in the SCF.

While the assessment itself only takes around a week, the pre-assessment work can start up to three months before and involves gathering and uploading a significant amount of evidence. There is then a post assessment period where the final assessment is evaluated and remediated with the CIO, SECAS and the SSC, the DCC GRC team facilitate this across all our suppliers and provide assurance to the SEC panel on the security and resilience of the Total System for our consumers.

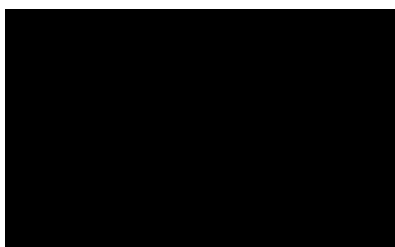
### Securing Value for

To plan efficiently and get the best value for money, DCC Security proceeded to procure the services on a three-year contract basis and agreed to a "call-off" delivery mode to ensure the necessary flexibility to accommodate with the individual requirements of each of the Service Providers who would be subject to the assessments.

Following our strategy of seeking value for money for our customers and the most appropriate level for assurance needed to comply with our regulator obligations, initiate a change from [REDACTED] They had used a different Security Controls framework based on a SOC 2 approach, which we felt no longer appropriate.

The approved procurement route for these requirements was a [REDACTED] via Request for Proposal (RFP) via the Consultancy Framework (Lot 1.3 - Project Management/Project Support (PMO)/Change Management) plus two other pre-existing suppliers.

The suppliers invited to bid were:



The other pre-existing suppliers were:



Three out of the above eight suppliers agreed to participate and provided submissions. These suppliers were:



An evaluation of quality and capability was carried out by three members of the DCC Security function, with a commercial evaluation being carried out by a senior procurement manager. This consisted of reviewing and comparing the pricing submitted by all bidders for the services and performing a financial stability check. The financial stability was assessed via a [REDACTED] and the overall business risk perspective rated low.

In line with the published RFP documents and the evaluation results, [REDACTED] overall score was 95.54 out of 100 and were ranked at number 1 overall. [REDACTED] scored 56 out of the 60 available on quality and 39.54 out of the 40 available on commercials. [REDACTED] were selected at the successful bidder. [REDACTED] have been delivering the CIO service since April 2023.



Across the three years, [REDACTED] were slightly cheaper overall, this is due to them proposing more junior personnel to deliver the services and therefore delivery of the services would be across an increased number of days. It is anticipated that the services will be provided more efficiently by [REDACTED] by more senior and experienced personnel across a reduced number of days. Comparing [REDACTED] with the like for like resource proposed by [REDACTED] to deliver the services, [REDACTED] would be circa 2-3% more expensive.

The contract was awarded as a [REDACTED] for resources, as there was a complete change in approach this resulted in a higher impact for the first year of assessments. However, the CIO and DCC have agreed that because of the slightly higher costs for bedding in the new approach the subsequent years would be at lower cost and that over the three years the total contract amount will not be exceeded. This has also resulted in DCC raising the PO (Purchase Order) for the second year early to cover the 2 years total cost and to prevent the CIO working at risk in 24/25.

This is a three-year contract [REDACTED] as per policy against a requirement that is mandated in the Licence and SEC Section G. It will be procured again in 2025.

**Table 5. Summary of procurement**

Procurement – Year 1 and 2 CIO Call Off)	
Number of Initial invitations to tender	8
Number of Bids received	3
Number of Bids shortlisted / presenting	2
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

### 1.5.3. Governance, Risk, and Compliance (GRC) Tool

An integrated approach to enterprise and security risk management, control monitoring and regulatory compliance is being designed across the Risk and Security functions and the existing technical approach to supporting the process with a combination of Excel, SharePoint and Teams is no longer fit-for-purpose.

DCC needed to identify a GRC tool that could support an improvement in the effectiveness and consistency of:

- Risk Identification
- Risk Assessment
- Risk Ownership Management
- Control and Compliance Management
- Audit and Continuous Improvement

- Third Party Risk Management

In the procurement we sought to avoid an additional support contract or consultancy goal, cementing value for money at the heart of our activity. Our procurement team was tasked with identifying a tool that met DCC's requirements with limited configuration and could be managed within the existing headcount at the DCC. The activity was forecast in the business plan from the start of RY2023/24.

### Securing Value for

A full [REDACTED] was carried out to identify a solution that could meet the quality and commercial requirements of the DCC. We secured an offering with more than the original DCC requirements for a significantly lower price than the other bidders. Below is a summary of our procurement actions to demonstrate our commitment to securing value for money:

- An initial list of ten suppliers was reduced to four during initiation of the procurement, predominantly due to the fact many suppliers to not guarantee that DCC data would remain hosted in the United Kingdom.
- The four remaining suppliers were invited to respond to a Request for Procurement that included a set of detailed functional requirements. Three responses were received, with one vendor declining to bid as they were unable to meet an essential requirement in time for the procurement deadlines.
- The responses were evaluated for quality by a team of six DCC employees, with a commercial evaluation completed by the Procurement team. All scores were then moderated to determine finalised scoring for the three vendors.
- All bidders were then invited to submit BAFOs, and the commercial evaluation was completed.
- [REDACTED] were identified as the preferred bidder, with contractual negotiations completed in March 2024, under the contract reference of [REDACTED]
- The decision was made to pay for the implementation costs and three-years of licensing for the [REDACTED] platform to realise additional value for money through a significant discount.
- During the contract negotiation and Statement of Work phase, it was identified that an additional module was required that resulted in the price increasing above the BAFO for [REDACTED], but this did not alter the result of the procurement with [REDACTED] remaining in a clear first place, and resulted in additional functionality that can also be put to use by the DCC. The total final contract value of [REDACTED] delivered more than the original requirements from the DCC for a significantly lower price than the other bidders.
- The additional functionality provided by the additional module will allow the DCC automate processes for the management of policies, standards and further documents, through automated update schedules, linking documents to control frameworks and identifying potential compliance gaps.

**Table 6. Summary of procurement**

Procurement – GRC tool	
Number of Initial invitations to tender	4
Number of Bids received	3
Number of Bids shortlisted / presenting	3
Strengths of Selected Bidder	[REDACTED]
Challenge by DCC	

### 1.5.4. RY25/26 Software

No baseline has been set for RY25/26 for our Security software costs, therefore these costs are showing a variant compared to the zero baseline. We forecast equivalent costs for RY24/25 and RY25/26, which are lower than our

spend for RY23/24. These IT costs include various annual subscriptions and licences required for our systems and devices.

Table 71: Forecast software

Incurred	GL		RY23/24	RY24/25	RY25/26
Software	IT	£m	0.323	0.145	0.160

A large circular graphic with a dark purple background. Inside the circle is a complex network diagram consisting of numerous small red and purple dots connected by thin, light purple lines, creating a web-like structure. The word 'Service' is centered in white text over this graphic.

# Service

**Version: 1.0**  
**Date: 31.07.2024**

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# 1. Service Delivery Cost

## Summary

### What is this and why is it important?

The Service Delivery (SD) function is crucial for ensuring that DCC's portfolio of change programmes (delivered under the Contract to Market lifecycle stage) is executed efficiently, meeting all regulatory and operational requirements, including those mandated by Ofgem and DESNZ. By maintaining a structured and consistent approach, SD ensures that all changes are implemented smoothly, minimising disruptions and maximising benefits for all stakeholders involved.

Key programmes include Market-wide Half Hourly Settlement (MHHS) and the transformation of infrastructure through the 4G Communications Hubs & Network programme in response to the sunset of 2G and 3G networks. Careful allocation and tracking of costs ensure transparency and accountability, while day-to-day operations and cross-programme activities ensure that DCC's goals and obligations are met effectively.

### RY23/24 Activities and Costs

We incurred total internal cost of £5.4m (a variance of £2.5m to Ofgem's baseline). The variance reported was predominantly (£1.7m) in incurred programme related payroll costs as we continue to roll out time sheeting across the organisation (led by the EPMO).

During RY23/24, Service Delivery invested in external expertise to support In-life change and DSP programmes on critical business work. In line with the feedback provided by Ofgem during last year's Price Control, and recognising the high quality of service for customers, SD has recruited these external experts as permanent employees, in turn driving value for money.

Internally, the Professional Services Practice has been enhanced to ensure that lessons can be transferred across programmes, providing consistency and improvement in service for customers, suppliers, and other stakeholders.

### Future Activities and Costs

The continued roll out of time-sheeting will improve resource allocations and short-term forecasting, informing forecasts and budgets for RY25/26 and beyond as we continue to deliver major change programmes (e.g. DSP).

## 1.1. RY23/24 Cost Variances Overview

We summarise our relevant Internal and External Costs in this section and explain the material cost variances (greater than £150k) in further detail throughout the document, grouped based on general ledger codes (GLs).

### 1.1.1. Internal Costs

We set out the baseline set by Ofgem from our previous year's submission, our costs incurred and forecasts, and highlight the material cost variances. In the following sections, we explain the cost centre purpose and our resource and non-resource costs.

#### Cost Centre Variance by GL

The table below provides a breakdown of incurred and forecast costs in price control format i.e., mapping costs directly against the price control GLs.

Table 1: Service Delivery Cost centre variance by

Baseline			RY23/24	RY24/25	RY25/26
<b>Total Service Delivery</b>		<b>£m</b>	<b>2.974</b>	<b>4.496</b>	<b>-0.000</b>
Payroll costs	PR	£m	2.730	4.302	-0.000
Non-payroll costs	NP	£m	0.074	0.076	-
Recruitment	RC	£m	0.052	-	-
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.118	0.118	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	-	-	-
Office Sundry	OS	£m	-	-	-
Incurred			RY23/24	RY24/25	RY25/26
<b>Total Service Delivery</b>		<b>£m</b>	<b>5.426</b>	<b>4.748</b>	<b>8.529</b>
Payroll costs	PR	£m	4.440	4.645	8.421
Non-payroll costs	NP	£m	0.436	0.095	0.088
Recruitment	RC	£m	0.086	0.008	0.021
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.464	-	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	-	-	-
Office Sundry	OS	£m	-	-	-
Variance			RY23/24	RY24/25	RY25/26
<b>Total Service Delivery</b>		<b>£m</b>	<b>2.452</b>	<b>0.252</b>	<b>8.529</b>
Payroll costs	PR	£m	1.711	0.344	8.421
Non-payroll costs	NP	£m	0.362	0.019	0.088
Recruitment	RC	£m	0.033	0.008	0.021
Accommodation	AC	£m	-	-	-
External services	ES	£m	0.346	-0.118	-
Internal services	IS	£m	-	-	-
Service management	SM	£m	-	-	-
Transition	TR	£m	-	-	-
IT Services	IT	£m	-	-	-
Office Sundry	OS	£m	-	-	-



## Programme Variance by Sub-Team

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

**Professional Services Practice** - A small percentage of the SD function's payroll costs are not recharged to the programmes. Specifically, non-rechargeable resources include a total of 7 FTEs. This accounts for approximately 5% of the total number of resources in the function. Please see below for further information regarding this variance.

**Table 2: Service Delivery Cost centre variance by sub-**

Baseline			RY23/24	RY24/25	RY25/26
<b>Service Delivery Payroll Costs</b>		<b>£m</b>	<b>2.730</b>	<b>4.302</b>	<b>-</b>
Professional Services Practice		£m	0.951	2.523	-
Programme Director		£m	0.866	0.866	-
Service Delivery Office		£m	0.913	0.913	-
<b>Incurred</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Service Delivery Payroll Costs</b>		<b>£m</b>	<b>4.440</b>	<b>4.645</b>	<b>8.421</b>
Professional Services Practice		£m	3.717	3.801	7.176
Programme Director		£m	0.497	0.596	1.062
Service Delivery Office		£m	0.226	0.248	0.183
<b>Variance</b>			<b>RY23/24</b>	<b>RY24/25</b>	<b>RY25/26</b>
<b>Service Delivery Payroll Costs</b>		<b>£m</b>	<b>1.710</b>	<b>0.343</b>	<b>8.421</b>
Professional Services Practice		£m	<b>2.766</b>	<b>1.278</b>	<b>7.176</b>
Programme Director		£m	-0.369	-0.270	<b>1.062</b>
Service Delivery Office		£m	-0.687	-0.665	<b>0.183</b>

### 1.1.2. External Costs

Not applicable for this function. Our material external costs for our SMETS2 programme are set out in the 'External Costs' chapter.

## 1.2. Purpose, Scope, and Structure

The Service Delivery (SD) function is central to executing DCC's portfolio of change programmes. It operates through a structured governance process designed to implement changes that align with required standards and ensure successful in-life operations. This function is crucial in ensuring that DCC's systems meet regulatory obligations and adhere to new Ofgem programmes and DESNZ requirements.

### Professional Services Practice - (Programme and Project Management (PPM) and Business Analysis)

The Professional Services Practice (PSP) within SD provides essential services and resources for various programmes. At the beginning of RY23/24, the PSP consisted of the Business Analysis and Programme and Project Management teams. In May 2023, this structure was expanded to include the Service Delivery Assurance (SDA) team and the Programme Management Office (PMO) team.

The SDA team is responsible for ensuring compliance with external assurance frameworks, thereby upholding rigorous standards of quality and accountability. The PMO team is tasked with controlling and governing Service Delivery change programmes, ensuring structured and consistent management across all projects.

## Value for Money

This delivery approach provides significant value for money through several key mechanisms:

- **Resource Sharing and Best Practice:** By facilitating the sharing of resources and best practice across different delivery portfolios, the PSP ensures that knowledge and experience are leveraged effectively, enhancing overall programme efficiency.
- **Consolidation and Development:** Consolidating the development of key programme artefacts, such as requirements documentation, within the centralised professional practice, promotes consistency and quality in the creation of essential documentation.
- **Consistency and Standards:** Maintaining uniform services and standards across programmes ensures that all projects adhere to the same high-quality benchmarks, reducing variability and enhancing overall programme outcomes.
- **Flexible Resource Deployment:** The ability to redeploy resources flexibly in response to specific challenges allows for more responsive and adaptive programme management, ensuring that resources are allocated where they are most needed.
- **Employee Development and Retention:** Rotating individuals across different programmes supports professional development and contributes to higher employee retention. This rotation fosters a diverse skill set and a more engaged workforce, benefiting SD in the long term.

## Delivery Benefits

This delivery approach offers the following benefits:

### Consistent Customer

By maintaining a structured governance process and standardising project management practices, Service Delivery ensures a consistent and predictable delivery experience. This consistency enhances the trust and reliability that SEC/DCC customers place in DCC's services, knowing that each programme will be executed with the same level of professionalism and efficiency.

### Minimised Disruption to Customers and Consumers

The planning and execution of updates and new capabilities are meticulously scheduled to avoid disruptions, particularly during critical periods such as winter. Special attention is given to the needs of vulnerable prepayment meter (PPM) consumers, ensuring that essential services remain uninterrupted during colder months when they are most needed.

### Effective Engagement with Stakeholders

The Service Delivery function collaborates closely with the Strategic Customer Engagement team to engage with the Smart Energy Code (SEC) community. By working with SEC forums and SECAS, DCC ensures that modifications (SEC mods) are processed smoothly and efficiently, addressing the needs and concerns of all stakeholders. This proactive engagement facilitates regulatory compliance and fosters a collaborative environment for continuous improvement.

### Flexible Approach for Customers

Leveraging the Professional Services Practice and a flexible resource allocation model, SD ensures that services and changes are provided on time, aligning with customer needs and operational requirements. The ability to quickly redeploy resources to address specific challenges ensures that critical programmes remain on schedule and that customers receive the benefits of new capabilities without delay.

### Strategic Organisational Changes

In November 2023, strategic decisions were made to enhance overall efficiency and alignment within DCC's functions:

- **PMO and Delivery Assurance Roles:** The majority of these roles were moved to the new Enterprise Portfolio Office team (EPMO) within the Finance function, with only residual support remaining within SD. This shift provides centralised oversight and governance across DCC's portfolio, enhancing efficiency and strategic alignment.

- **Business Analysis Team:** This team was moved to the CTO function. This transition increases the team's ability to add value to projects from their inception and work more effectively with the Test Assurance team, while maintaining their close relationship with Service Delivery.
- **PPM Team Secondment:** The PPM team supporting in-life change (ILC) was seconded to the Operations function for approximately 12 months as ILC transitioned from a project to a product methodology. This move aims to enhance the team's capabilities for ongoing support and improve integration and collaboration. This approach is designed to maintain continuity, support in-life changes effectively, and ultimately deliver better outcomes for customers and consumers.

By implementing these changes and adopting a flexible, structured approach, the Service Delivery function continues to provide reliable, efficient, and customer-focused services, ensuring that DCC meets its regulatory obligations and operational goals.

### 1.2.1. Scope

The Service Delivery function is essential for managing the diverse range of changes required in the Smart Metering ecosystem. By ensuring compliance with regulatory and government directives, managing service contract transitions, and driving technological advancements, Service Delivery maintains and enhances the efficiency, reliability, and quality of smart metering services.

The Service Delivery function is accountable for the delivery of changes to the Smart Metering ecosystem including:

- Modifications to the Smart Energy Code and Retail Energy Code.
- Change directed by Ofgem.
- Change directed by Government, such as the enrolment and adoption of SMETS1 devices, and Enduring Change of Supplier (ECOS).
- Expiration of existing third-party service contracts (for example DSP re-procurement).
- Transition to next generation services and introduce new capability, for example Communication Hubs & Network (CH&N) programme which will deliver 4G Communication Hubs.
- Enhanced Operational Efficiency: Implementation of new enterprise systems, such as procurement software, increases accuracy and efficiency in internal processes. Projects like the Cyber Fusion initiative bolster network security, enhancing overall resilience against cyber threats.

### Contribution to DCC strategy

The Service Delivery Function enables DCC to deliver multiple concurrent programmes in a consistent and controlled manner with appropriate flexibility to respond to business needs. This approach delivers value for money in accordance with licence objectives. Resources within the SD function are managed in a matrix structure. Delivery Directors and Programme Directors are treated as customers within this framework, while the PPM team oversee the coordination and delivery of services.

### Events and objectives driving activity and cost over 23/24

Most costs are allocated to the relevant programmes supported by SD. Detailed information can be found in the relevant chapters of the price control submission. Below is a summary of the largest programmes:

- **CH&N:** The Comms Hub and Network programme will upgrade the smart metering network to 4G to mitigate the retirement of 2G and 3G services in the Central and South regions. Refer to the CH&N chapter.
- **DSP:** The Data Service Provider manages central data services for DCC customers communicating with smart meters. A change is required because the existing contract, awarded in September 2013, is ending, and the current solution is reaching end-of-life and is constrained in functionality. Refer to the DSP chapter.
- **MHHS:** The Market-wide Half Hourly Settlement programme aims to achieve a faster and more accurate settlement process using half-hourly meter readings. As a key delivery partner, DCC collaborates with suppliers, Ofgem, and industry stakeholders to ensure seamless data flow from meters into the settlement process. Refer to the MHHS chapter.

- **Future Connectivity:** This programme is assessing how connectivity technologies could be adopted to meet the needs of DCC's customers and underpin the evolution of the network in the North up to 2050. Refer to the Operations chapter.
- **PKI-E:** This programme will ensure continuity of service for the private key infrastructure, which enables service users to request device and organisation certificates, ensuring device security. Refer to the PKI-E chapter.
- **CAD-g:** Led by the government, this programme allows consumers without access to cellular services to access smart metering via home internet. Refer to the CTO / Design and Assurance chapter.
- **Future Service Management:** The DCC Service Management system is a critical part of the DCC infrastructure, allowing the tracking and resolution of issues across the smart meter network. Refer to the DSMS / FSM chapter.

#### Events and objectives driving Service Delivery costs directly impacted by:

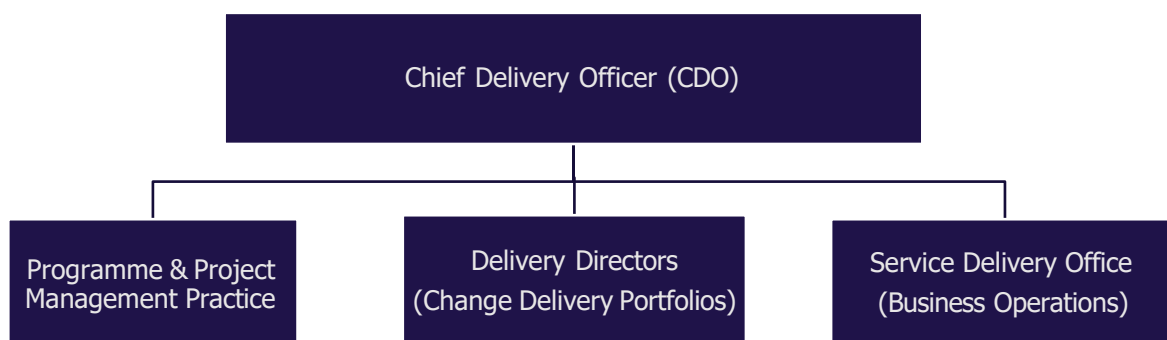
- The extent and complexity of the change programmes undertaken directly impact service delivery costs. A larger number of programmes or more complex scopes necessitate a greater volume and diversity of resources. This has a direct effect on both the overall cost and the types of resources required to support these initiatives.
- SD started the year using [REDACTED] as an MSP, during this year the decision was made to become self-sufficient in these areas.
- As already mentioned, maturity of the time recording system means that some costs for people working on programmes are seen the SD function costs.
- Additionally, a number of SD colleagues are deployed on change programmes which whilst not being mandated are critical to the ongoing nature of the DCC network e.g. critical technologies need refreshing as they reach end of life and critical security protocols require updating.

By implementing these initiatives, the SD function continues to ensure reliable, efficient, and customer-focused services, meeting regulatory obligations and operational goals effectively.

### 1.2.2. Cost Centre Structure

As at the end of RY23/24, the cost centre's organisational structure is shown below.

Figure 1 – Service Delivery Cost centre organisational



The table below shows the structure in RY23/24 and a description of the teams within the structure.

Table 3: Description Per Sub-Team

Sub-team structure reported RY22/23	Current Sub-team end-RY23/24	Description
Service Delivery Office	Service Delivery Office	<p>The Office of the Chief Delivery Officer (CDO) is responsible for overseeing the SD function. Key personnel include:</p> <ul style="list-style-type: none"> <li>• Chief Delivery Officer</li> </ul>

		<ul style="list-style-type: none"> <li>Professional Services Director</li> <li>Head of Professional Services</li> <li>Resource Deployment Manager</li> <li>Resource Deployment Administrator</li> <li>Head of PPM Practice</li> </ul> <p>These roles are not charged to specific programmes and comprise 5% of the payroll cost.</p>
Professional Services Practice	PPM Practice	<p><b>Programme and Project Management Practice (PPM)</b></p> <p>The PPM Practice provides an internal consultancy service, offering professional programme and project management resources and services at the right time. Utilising consistent, appropriate methods and tools, and working to quality-assured standards, the PPM Practice supports a flexible portfolio of delivery. This practice includes:</p> <ul style="list-style-type: none"> <li>Head of Profession</li> <li>Programme and Project Managers</li> <li>Project Coordinators</li> </ul> <p><b>Business Analysis Practice</b></p> <p>Until November 2023, the Business Analysis (BA) Practice operated within SD, delivering business analysis services such as writing requirements and delivering analysis artefacts for projects and programmes impacting the smart meter ecosystem. From November 2023, while the BA model remained the same, the entire team moved to the CTO function.</p> <p><b>Allocation of Resources</b></p> <p>More than 95% of the teams in both PPM and BA Practices are allocated to deliver programmes detailed in other parts of this price control document, such as CH&amp;N, DSP, ECOS, and FSM. Only two roles have solely leadership and management responsibilities without a direct delivery role: the Head of PPM Practice and the Project Coordinator Service Manager.</p>
Programme Directors	Programme Directors	<p>Programme Directors report directly to the Delivery Directors. Each Programme Director holds responsibility for ensuring the successful delivery of their designated programme of work. This framework establishes clear accountability and oversight, facilitating the effective management and completion of each programme under their jurisdiction.</p>
Programme Management Office and Portfolio Office		<p>During the reporting year 2022/2023 (RY22/23), the PMO and Portfolio Office team was primarily allocated to the Finance cost centre. As previously noted, there has been a partial realignment: some members of the team have transitioned back, while others remain within the Finance department, now integrated into the new Enterprise Project Management Office (EPMO).</p>
Delivery Assurance Team		<p>In November 2023, 50% of the Delivery Assurance Team was seconded to the Enterprise Project Management Office (EPMO) for a six-month period. This allocation was made to support the implementation of the Programme Assurance Policy framework in collaboration with SECAS. Concurrently, the remaining 50% of the team was retained within Service Delivery and assigned to Programme Delivery and Mobilisation.</p> <p>As of March 2024, the two team members who had been seconded to EPMO have returned to Service Delivery and are now contributing to programme delivery.</p>

### 1.3. Cost centre variances

#### Variance by GLs in the RIGs

The table below provides a breakdown of incurred and forecast costs in price control format i.e. mapping costs directly against the price control GLs. Non-payroll costs are explained in a later section.

Table 4: Cost centre variance by

	Total Service Delivery			RY23/24	RY24/25	RY25/26
<b>Total Baseline</b>	<b>Total Service Delivery</b>		<b>£m</b>	<b>2.974</b>	<b>4.496</b>	<b>-0.000</b>
<b>Total Incurred</b>	<b>Total Service Delivery</b>		<b>£m</b>	<b>5.426</b>	<b>4.748</b>	<b>8.529</b>
<b>Total Variance</b>	<b>Total Service Delivery</b>		<b>£m</b>	<b>2.452</b>	<b>0.252</b>	<b>8.529</b>
	Payroll costs	PR	£m	1.711	0.344	8.421
	Non-payroll costs	NP	£m	0.362	0.019	0.088
	Recruitment	RC	£m	0.033	0.008	0.021
	Accommodation	AC	£m	-	-	-
	External services	ES	£m	0.346	-0.118	-
	Internal services	IS	£m	-	-	-
	Service management	SM	£m	-	-	-
	Transition	TR	£m	-	-	-
	IT Services	IT	£m	-	-	-
	Office Sundry	OS	£m	-	-	-

### Payroll Costs variance

The core Service Delivery function is composed of a small team of senior staff responsible for centrally managing resources allocated to DCC's programme teams. This central team, totalling 7 Full-Time Equivalents (FTEs), includes the CDO, Director of Professional Services, Head of Professional Services, Head of Practice (Project and Programme Management), Head of Business Analysis, Programme Resource Deployment Manager, and Programme Resource Deployment Administrator. These roles represent approximately 5% of the total resources within the Service Delivery function and focus primarily on strategic oversight, management, and administrative tasks. They are tasked with providing leadership, developing standardised processes, and supporting the function as a whole.

All other resources are assigned directly to programmes and will be recharged via time sheets in future years. The current payroll cost reports reflect a significant number of colleagues who worked on programmes throughout the year, however the time sheeting system introduced for RY23/24 is still new and does not fully capture the resource allocation accurately. Efforts are underway to enhance the time sheeting tool and implement audit and compliance measures to ensure accurate recharge data. It is anticipated that the accuracy of this data will improve over time, but for now, our reported costs include those who reported themselves as engaged in programmes, detailed by sub-team below.

A material increase in Service Delivery resources is not anticipated in the coming years.

### Variance by Sub-Team

The table below outlines the variances by sub-team. The following sections describe the reasons for the variances.

Table 5: Service Delivery Payroll Costs Variance by Sub-

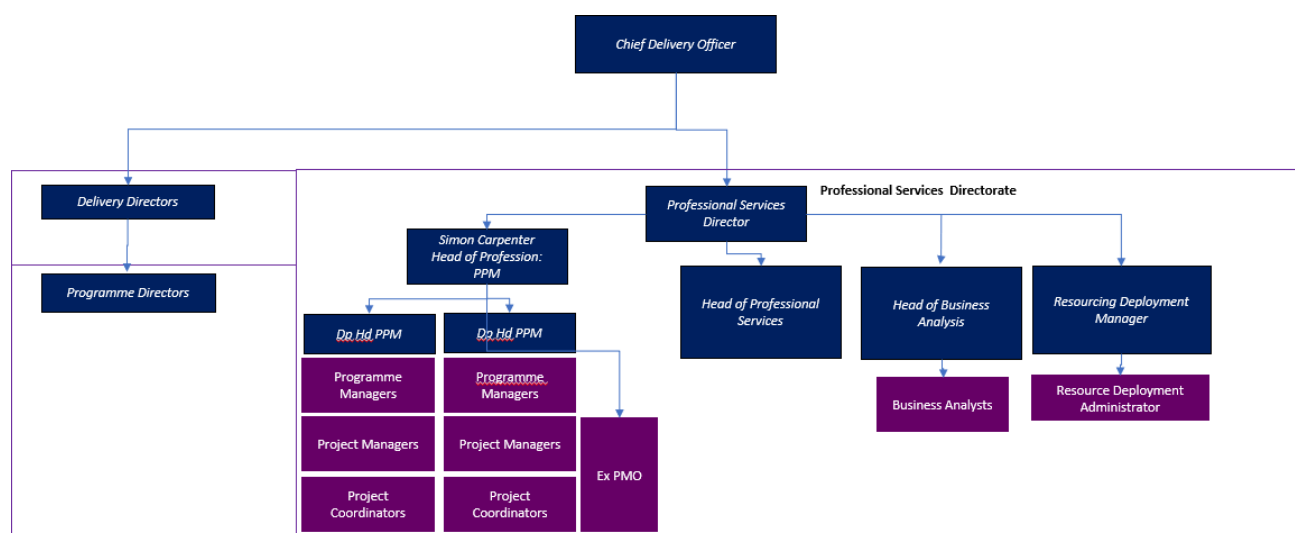
Variance			RY23/24	RY24/25	RY25/26
<b>Service Delivery Payroll Costs</b>		<b>£m</b>	<b>1.710</b>	<b>0.343</b>	<b>8.421</b>
Professional Services Practice		£m	2.766	1.278	7.176
Programme Director		£m	-0.369	-0.270	1.062
Service Delivery Office		£m	-0.687	-0.665	0.183

## 1.4. Drivers for Variance - Resource

The Professional Services Practice includes the Programme & Project Management community, which offers specialised programme and project management services. This team functions as an internal consultancy, providing resources and business analysis as well as delivery services throughout the project lifecycle. They employ consistent and appropriate methods and tools to uphold quality assurance standards and support a flexible delivery portfolio.

Additionally, the team engages extensively with Delivery and Programme Directors, internal business owners, and external stakeholders to ensure optimal support for our programmes. Their role is crucial in aligning project efforts with stakeholder needs and maintaining high standards of service delivery.

Figure 2: Org Chart for Service Delivery



The Professional Services Practice is integral to programme delivery, providing key roles such as Programme Managers, Project Managers, PMO staff, and BAs. These roles are essential for the successful management and execution of major programmes.

Complex programmes are managed by breaking down work into work packages, each requiring dedicated project management effort. These work packages are then integrated into workstreams, overseen by Programme Managers.

To ensure effective programme delivery, the Programme Directors oversee the overall delivery plan to maintain progress. This includes daily oversight of activities and dependencies to ensure alignment with the plan, thereby achieving timely and cost-effective results. It also includes stakeholder management.

The core team supporting the PPM Practice include:

- **Resourcing:** Two members are responsible for balancing supply and demand within the Service Delivery function and managing the resourcing process in collaboration with the DCC People team.
- **Head of Programme and Project Management:** This role, along with two Deputies (2 FTEs) and a Project Coordination Service Manager (1 FTE), provides leadership and management support to the PPM team on a functional basis. They focus on talent management, recruitment, and capability development. The Deputies assist with capability improvements, onboarding, development, and continuous learning.

Within the Service Delivery cost centre, all remaining team members are assigned to the programmes which include CH&N, SMETS2, DSP, FSM, and MHHS. Their roles are as follows:

- **Programme Managers:** Oversee the entire programme lifecycle, ensuring alignment with strategic goals and successful delivery of multiple interconnected projects. They add value by providing leadership, managing risks, and ensuring programme objectives are met.



- **Project Managers:** Manage specific projects within the programme, coordinating tasks, resources, and stakeholders to deliver project outcomes on time and within budget. Their value lies in ensuring project goals are achieved efficiently and effectively.
- **Project Coordinators:** Supports the Project Manager with administrative tasks, scheduling, and communication. They add value by enhancing project organisation, facilitating smooth operations, and ensuring timely updates and documentation.
- **PMO Managers:** Leads the Project Management Office (PMO) for the programmes, establishing standards, best practices, and governance for project and programme management. Their value is in improving consistency, quality, and oversight of project execution across the organization.
- **PMO Analysts:** Provides analytical support to the PMO, including reporting, data analysis, and performance tracking. They add value by offering insights that drive informed decision-making and continuous improvement in project management processes.

Despite the allocation of these activities and roles to specific programmes, our current mechanism for cross-charging resources is still undergoing improvement. Consequently, certain costs persist within the SD function as they progress through the system.

### **Activities driving change in resource in RY23/24.**

The variance in RY23/24 is primarily attributed to a low baseline established for the year, following disallowances by Ofgem related to the 2022/23 price control submission. Despite this, the overall team size has remained consistent with previous years. Service delivery resources, with the exception of the core SD heads, continue to be integrated into the Professional Services Practice and are allocated to support programmes as needed.

A new time sheet system was implemented during RY23/24 to enhance resource allocation and tracking. However, this system was introduced mid-year, which means it was not fully operational for the entire reporting period. Consequently, the reported costs for RY23/24 include some resources that were, in practice, deployed on programmes. This has resulted in a stable net cost across DCC for the year, rather than an increase as suggested by the data table.

### **Activities driving change in resource in RY24/25 &**

As described for RY23/24, the new time sheet system for tracking actuals and forecasting, which is a component of the Annual Business Plan, is still being embedded.

For RY24/25, we anticipate that costs will remain stable. The lower variance compared to RY23/24 can be attributed to a higher baseline. Costs are expected to continue at stable levels in RY25/26. The anticipated increase in RY25/26 is attributed to the difficulty in accurately forecasting staff allocations to programmes, as these programmes are not yet sufficiently developed to allow for precise allocation of service delivery staff.

To ensure that spending remains economic and efficient, the Service Delivery function will maintain a balanced workforce, avoiding stranded resources. For example, contractors will be released if there are permanent staff members without assigned programmes. Resourcing SMEs will continue to be a key support function, while all other resources will be allocated directly to delivery programmes.

## **1.4.2. Programme/Delivery**

Programme/Delivery Directors are accountable for the successful delivery of their assigned programmes. These directors play a crucial role in programme management, coordinating roles and deliverables across various DCC functions to ensure successful programme outcomes for customers. Although all Programme Directors are actively assigned to programmes, the transition to a timesheet system means that some costs for these roles were still reported under the functional cost centre (17 FTEs).

### **Activities driving change in resource in RY25/26**

Costs for this team are expected to remain stable in the coming years. The anticipated increase in RY25/26 is attributed to the challenge of accurately forecasting staff allocations for future programmes, which must mature sufficiently before service delivery resources can be allocated with certainty. In other words, the team will not grow but less of it can be accurately charged out to the programmes in forecast years.

The strategic use of Delivery Directors will continue to focus on large and complex change activities. Some programmes are expected to transition to other business areas, such as In-Life Change moving to Operations. To ensure economic and efficient spending, Service Delivery will maintain a balanced workforce and avoid stranded resources. All Programme Directors will be assigned to delivering the programmes previously mentioned.

### 1.4.3. Service Delivery Office

#### Activities driving change in resource in

There is a variance in RY25/26 for the Service Delivery Office. We are actually planning a slight reduction in the costs of the sub-team between RY24/25 and RY25/26 of £0.065m, but because there is zero baseline in the final year, all of the costs appear as a variance. We are intending to maintain a core team in our forecasts, but are rationalising the resources based on current expectations of demand.

## 1.5. Drivers for Variance – Non-Resource

### 1.5.1. Summary

During RY23/24, Service Delivery procured only one materially variant external service. Additionally, there was a variance noted in the travel, subsistence, and expenses category.

**Table 6: Material Variance for Service Delivery non-resource internal**

Variance	GL		RY23/24	RY24/25	RY25/26	Procurement Type
Travel, subsistence and expenses	NP	£m	0.343	-0.055	-0.055	
	ES	£m	0.275	-	-	

### 1.5.2. Travel, Subsistence and

All travel, subsistence and related expenses are allocated to the Service Delivery function rather than to individual programmes in which staff are deployed. This allocation supports Service Delivery's critical role in coordinating efforts across DCC and with the supply chain. To enhance productivity and break down workstream silos, Service Delivery consciously considers co-locating teams and conducts regular meetings, including workshops, weekly project meetings, and collaborative sessions with potential suppliers. These engagements occur across multiple locations, reflecting the distributed nature of both DCC's offices and its service providers.

For instance, the CH&N programme involves four supplier members and two assurance partners. Despite each organisation having distinct scopes and deliverables, it is essential that they do not operate in isolation. The SD team's role is to integrate these six parties, along with other stakeholders as needed into a single coherent team, to ensure optimal programme outcomes, adhering to timelines and budgets. The costs associated with facilitating co-location are deemed necessary and provide a positive position on programme costs when delivering in a disaggregated delivery model, which our business case demonstrates as cost-effective compared to alternative approaches. In the future we will plan for expenses to be part of the programme budget where appropriate.

Given the high cost of project slippage, travel costs are considered a value-for-money investment due to the significant benefits derived from face-to-face engagements. These interactions are crucial for delivering projects within scope and budget especially given the importance and value of these programmes.

Additionally, RY23/24 includes some small internal DCC expenses. Given DCC has offices in multiple locations, the expense policy permits staff to claim costs for travel away from their usual office locations. Internal travel includes expenses for:

- Induction or strategy days.
- Annual and quarterly performance and goal-setting meetings.
- Monthly leadership meetings and related support across the three offices.
- Attendance at training and development days.

Expenses also cover staff attending approved conferences for professional development and industry engagement. Specialised training for key programme-related skills, as well as general career progression training, is also supported.

### 1.5.3. PPM and BA Consultancy Services [REDACTED]

In March 2023, DCC concluded the [REDACTED] managed service trial, which was initiated to evaluate the use of a Managed Service Provider (MSP) versus DCC employees for supporting mandated programmes. The decision to end the trial was made to prevent additional costs and ensure value for money.

Post-trial, all [REDACTED] staff were replaced by DCC contractors by April 2023, except for two Subject Matter Experts (SMEs). These SMEs were retained to support critical activities: the DSP requirements and the "In Life Change" Programme. Their retention was essential to maintain momentum and continuity in these key areas, given that immediate replacement by contractors would have been costly and disruptive.

#### Retention of

- **Business Analyst:** Retained due to their pivotal role in the DSP programme, particularly for leading the re-procurement exercise and ensuring tight deadlines. Their expertise was crucial for maintaining continuity and accuracy in requirements.
- **Programme Manager:** Retained for their unique skills and track record in managing complex projects, including SEC releases and GBCS firmware upgrades. Their continued involvement was vital for the successful delivery of critical programmes. This Programme Manager has since transitioned to a permanent role within DCC.

#### Securing Value for

[REDACTED] was initially procured in February 2022 through a [REDACTED], where they achieved the highest scores in quality and commercial proposals. Following a commercial evaluation in December 2022, their contract was extended until April 2023. This evaluation confirmed that [REDACTED]'s day rates were competitive with other providers.

In October 2023, DCC decided to extend the contracts of two [REDACTED] individuals for critical business continuity purposes, based on their extensive DCC-specific knowledge and the commercial evaluation. This decision aligns with DCC's commitment to maintaining continuity and delivering value for money in its programmes.