Data Communications Company

Annual Report 2023

Smart DCC Limited
Annual Report including the Regulatory Financial Statements
Year ended 31 March 2023
Registration number 08641679

Contents

1. Chairman’s foreword

Welcome to the Data Communication’s Company’s (DCC) Annual Report and Accounts for the year ending March 2023.

Operating at the intersection of energy, telecommunications and government policy, the smart metering network forms the digital spine of Britain’s energy system. As its operator, DCC has a significant role in supporting Great Britain’s transition to a clean, secure, and smart energy system. As a business we are driven by our purpose to make Britain more connected, so we all lead smarter, greener lives.

As we reflect on the past year, despite its challenges, we can celebrate some significant milestones. More than half of British homes now have a smart meter. There are now over 27 million gas and electricity meters connected to the central, secure network of the DCC, helping consumers to manage their energy usage and supporting our grid in moving away from fossil fuels. Annually, over one million tonnes of carbon are now being saved due to smart meters.

As outlined in the recent National Audit Office (NAO) report, the broader benefits of smart metering are beginning to be realised, ranging from lower costs for suppliers to broader power sector decarbonisation. Notably, these benefits included the Demand Flexibility Service put in place by the National Grid Electricity System Operator (ESO) over the last winter, which enabled consumers with smart meters to receive a financial incentive for shifting their consumption from peak times, in turn reducing the need to fire up power stations during the gas crisis. This saved over 3,300 MWh of electricity, enough to power nearly 10 million homes, during one of the most challenging winters for households in recent history.

Integral to the transition to a cleaner, smarter, and more secure energy system will be further digitalisation and use of data; both for consumers (as they understand and manage their energy usage) and the grid (as it seeks to optimise supply and demand). We recognise the smart metering network will have a significant role to play in this shift, and over the past year we have continued to enhance our technology, processes, and governance to ensure continued delivery of a reliable and stable network. I am pleased to report that network availability remains strong, with 99.9% over the course of this financial year.

As is the case across all sectors of the economy, increasing digitalisation also requires further efforts to improve the cyber security and resilience of those networks, especially at a time of heightened geopolitical tension. This is particularly important for Critical National Infrastructure, which the smart metering network is deemed to include. Our network was designed with security at its core, and we have continued to work very closely with our colleagues at GCHQ and the National Cyber Security Centre (NCSC) to improve our ability to detect and respond to cyber threats.

The challenging circumstances of last winter have made clear the imperative we have to support the most vulnerable consumers. In line with our licence obligations and government policy, over the last 12 months the DCC has been investigating what more we can do. In partnership with UrbanTide, an organisation focused on sustainability through use of data and AI, we have been trialling how smart meter system data can be shared to identify communities at greater risk of fuel poverty. The results have been very promising and could support resources being directed to precisely where they are needed most, relieving pressure on wider public services such as local authorities and the NHS.

Smart metering data offers a unique and valuable insight that if shared appropriately, securely and in a manner that builds consumer trust, offers significant potential to drive social good.

This is one example of the smart metering network’s broader potential. As an already established national asset, the smart metering network can be a platform for further policy implementation and market innovation. The DCC has been working with the Government, the regulator, and our customers to ensure the obligations on and expectations of the smart metering network continue to support broader policy aims and ambition.

As a Board, we recognise we will have a critical role to play over the course of the coming years, helping to guide the organisation through a period of change. In January 2023, we responded to Ofgem’s consultation on the future regulatory arrangements for the DCC, with our current licence due to expire in September 2025. In our response we drew on our direct experience of developing and operating the DCC, alongside navigating the complex external stakeholder environment, that has been gained over the period since its inception in 2013.

As I write, we are still awaiting Ofgem’s decision on our future licence model. Regardless of the outcome, we are committed to working with the regulator and our customers to ensure a seamless transition.

Finally, I would like to thank our partners, across the energy industry, government and Ofgem for their support, and our people who have continued to work tirelessly in pursuit of our purpose. Together we are building a positive legacy, accelerating, and enabling the transition to a cleaner, fairer, and more secure energy system.

Richard McCarthy CBE
Chairman Smart DCC

2. CEO Statement

At the DCC our purpose is to make Britain more connected so we can all lead smarter, greener lives.

To that end, and on behalf of the team, I am incredibly proud to update you on the continued progress and evolution of the smart metering network. More than half of British homes now have a smart meter, with over 27 million smart meters transmitting more than 1.4 billion messages each month, helping to save annually over one million tonnes of carbon dioxide.

Over the last year we have focused on supporting our customers in the energy industry through the continued operation of a stable and secure network, the delivery of major programmes, and an increased focus on ensuring we are a more efficient and responsible business.

The smart metering roll-out continues to progress at pace, resulting in a larger, more complex network to operate. We measure our operational performance against the targets set out in the Operational Performance Regime (OPR). This past year our service availability has been 99.9% and our other scores are in the upper 90th centile, either exceeding or very close to the targets. Working collaboratively with our suppliers and stakeholders we have continued to explore opportunities to ensure we deliver stable, reliable, expected levels of performance.

Migrating the first generation of smart meters (SMETS1), ensuring consumers can simultaneously switch supplier and maintain connectivity, has been a technical challenge. At the end of this financial year we had migrated 11.3m SMETS1, up from 8.9m in March 2022. The DCC has delivered against its requirements, and we are doing all we can to support suppliers with remaining meters to migrate. This programme has been technically complex, with thousands of hardware and software combinations to unravel, but as we approach the final stages it is clearly demonstrating the potential to support government policy ambitions.

In a similar manner, the Central Switching Service (CSS) successfully went live in July 2022. This was a significant milestone in the transformation of the retail energy market, enabling faster, more reliable energy supplier switching. The CSS has supported over eight million switches since it went live with strong operational performance.

To keep pace with a rapidly evolving technology landscape, the smart metering network will need regular review and evolution. With sunsetting for 2G/3G now confirmed, the successful and timely delivery of our next generation 4G Communications Hubs is critical and I am pleased to report we are on track to deliver against our joint industry implementation plan. Our plans incorporate customer views and future expectations to build in the flexibility and scalability needed to support over-the-air updates. This will allow future upgrades without the need for engineering visits, delivering significant cost savings.

We are fully aware that we need to provide the accessibility, flexibility, and speed of change expected of a modern network and commensurate with the scale of the net zero challenge. Central to this will be the evolution of our Data Service Provider (DSP) - the smart metering network's core messaging platform - into a more flexible, disaggregated architecture. Working very closely with the Department for Energy Security and Net Zero (DESNZ), we continue to make excellent progress, with strong backing for the technical design as we move into commercial approach and plans.

The continued cost-of-living challenge makes it paramount the DCC delivers value for money, as this ultimately affects consumer energy bills. In 2021 we launched the Business Accuracy Programme, and we are seeing the benefits across the business, including enhanced tools and processes for planning, reporting, and forecasting. As we begin to wind down the programme, we are confident it has delivered a meaningful step change in the way we operate. We are now seeking to build on this, leveraging the outputs to benchmark performance and identify further areas of cost efficiency.

In line with our purpose, we are making plans to reduce our environmental impact, not just by maintaining our carbon neutrality as a single business but ensuring high sustainability standards across our supply chain. The creation of our Responsible Business Framework over the course of this year brings these ambitions together, formalising our efforts to be a sustainable business in a more structured, holistic plan.

The urgency of the change to a decarbonised and digitalised energy system that delivers for consumers has never been clearer, with Lord Deben, Chair of the Climate Change Committee, stating that 'now is a key moment to remake the arguments for faster progress'. As an already established national asset, highly secure and operating at scale, the smart metering network and the DCC provide a platform for policy implementation and market innovation that can both accelerate decarbonisation and drive social good. Leveraging this effectively will ensure we are ready to lead smarter, greener lives.

Angus Flett
Chief Executive Officer Smart DCC

Expecting

3. Key performance indicators[1]

Financial

Statutory reported costs

2023	2022
£523.2m	£440.3m

Delivering within budget
(Spend compared to charging statement)

2023	2022
£589.7m vs £608.2m	£493.6m vs £612.8m

Operational

SMETS2 life to date installations

2023	2022
14,955,042	11,179,442

SMETS1 life to date migrations

2023	2022
10,626,590	8,279,013

Service provision performance[2]

2023	2022
Expecting 96.0% but subject to Ofgem accepting position on SRV8.11	94.3%

Customer Effort Score

2023	2022
6.0/7	5.7/7

Employee Net Promoter Score (eNPS)

2023	2022
0	-20

Our network's growth in the year

SMETS1:

+2,347,577
connected to our network

Cumulative total at the year end was
10,626,590

Best month: 371,000 installs in **January 2023**

SMETS2:

+3,775,600
installed onto our network

Cumulative total at year end was
14,955,042

Best month: 363,000 installs in **November 2022**

Total Connections:

+6,123,177
total added to network

Cumulative total at year end was
25,581,632

Best month: 699,000 installs in **January 2023**

1 As at 31 March 2023
2 This reflects our performance against service provision measures in the Operational Performance Regime (OPR)

4. Our business model and strategy

The DCC, together with its customers, connects homes and businesses to a single, secure, smart metering network.

Purpose

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

Mission

Our mission is to digitalise Britain's energy system, enabling innovation and re-use of the DCC network to accelerate decarbonisation and drive social good.

Values

How we achieve these is guided by our three core values. They help us to work consistently and collaboratively, both internally and with our diverse set of external stakeholders.

Our three core values:

MAKE A **Difference**

ACT WITH **Integrity**

BE **Accountable**

Our strategic outcomes

Given our mandate and the evolving context in which we operate, we have outlined a series of strategic outcomes for our organisation to help align our activities and measure our performance. It is our intention to revisit these at the next licence period to ensure they reflect future considerations. The strategic outcomes are the rationale for why we do what we do to deliver value for our customers, and GB consumers.

We will be:

Secure and stable: delivering reliable network performance, nationwide, while maintaining a security posture and resilience expected of an asset deemed ‘Critical National Infrastructure’

Right first time: delivering our services to the time, cost and quality expectations of our customers and wider stakeholders

A responsible and efficient business: operating efficiently and responsibly in a manner that recognises our obligations to our people, our customers and ultimately consumers

Flexible and fast: delivering an accessible and flexible platform, enhancing our capabilities to provide a swift and seamless experience for current and future customers

What we operate

We operate and maintain the smart metering network on a 24/7 basis, securely transferring energy data from homes and businesses to our customers. We do this by supporting the roll-out of second-generation (SMETS2) smart meters and the migration of existing first generation (SMETS1) meters onto our network, for domestic premises and small businesses across Great Britain. We are currently undertaking a programme of work to prepare for the roll-out of next generation, 4G smart meters expected to be deployed onto the network from 2025 onwards.

Our customers are energy retailers, Distribution Network Operators (DNOs), Managed Service Providers (MSPs) and a growing number of other innovative businesses.

The DCC has delivered additional services beyond the original scope of its role at the licence award in 2013, notably providing the Central Switching Service (CSS) which went live in 2022. This makes switching energy suppliers faster, more reliable and more efficient. It has supported more than 8m energy switches since it went live.

Given our position as the digital backbone of the GB energy system, and an already established national asset, the DCC may be asked by the government or Ofgem to deliver future policy initiatives. The reach, scale and inherent security of our network provides a platform for policy implementation.

For example, the government is currently considering the role of the DCC as part of its broader consultation on a Smart & Secure Electricity System (SSES). We are also actively participating in government and industry-led innovation projects to identify additional use cases for the smart metering network which could accelerate decarbonisation and drive social good.

DCC Public

How we deliver

In operating these services, the DCC delivers a unique set of activities from engaging with a varied set of stakeholders, to designing, procuring, and securing new technologies, through to assuring and operating these as part of managing our network. Any changes to existing services are managed through our Lifecycle Management approach. The following sections outline this approach and our efforts to designing (Technology), procuring (Commercial), securing (Security) and assuring and operating (Operations) our network.

Lifecycle management approach

We manage any changes to existing services and the implementation of new services provided to our customers through our lifecycle management 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 technical refresh.

New sources of change, such as instruction from government or our customers will funnel through the 'Front Door' that will act as a single point for change initiation. This enables enhanced foresight on future activity and ensures delivery impacts and risks can be flagged at the earliest opportunity.

At the 'Concept to Contract' stage, for programmes and procurements that cover core service provision or where the contract value is greater than £10m, the DCC follows the HM Treasury Green Book Business Case approach. This enables us to articulate and demonstrate how the change will meet customers' needs and provide value for money.

As the activity moves from 'Contract to Market' to 'Market to Retire', and transitions into the live environment, our service assurance process will ensure a smooth go-live that protects customer operations. We do this by controlling all change through quality gates into the live environment, so that service risks are identified and mitigated, and key quality standards are met.

To support our efficiency efforts, a process improvement team is being mobilised to gradually improve and mature our core processes over the next 12-18 months. As we develop and refine these further, we will engage with stakeholders to ensure they can input where appropriate.

Lifecycle management supports appropriate stakeholder engagement throughout the process. The DCC operates in a complex and changing stakeholder landscape. We want to be recognised as a trusted partner - by our customers, our regulator, our suppliers, and other ecosystem participants. Therefore, engaging and collaborating with our stakeholders is fundamental to the way we operate, with regular engagement from across the business.

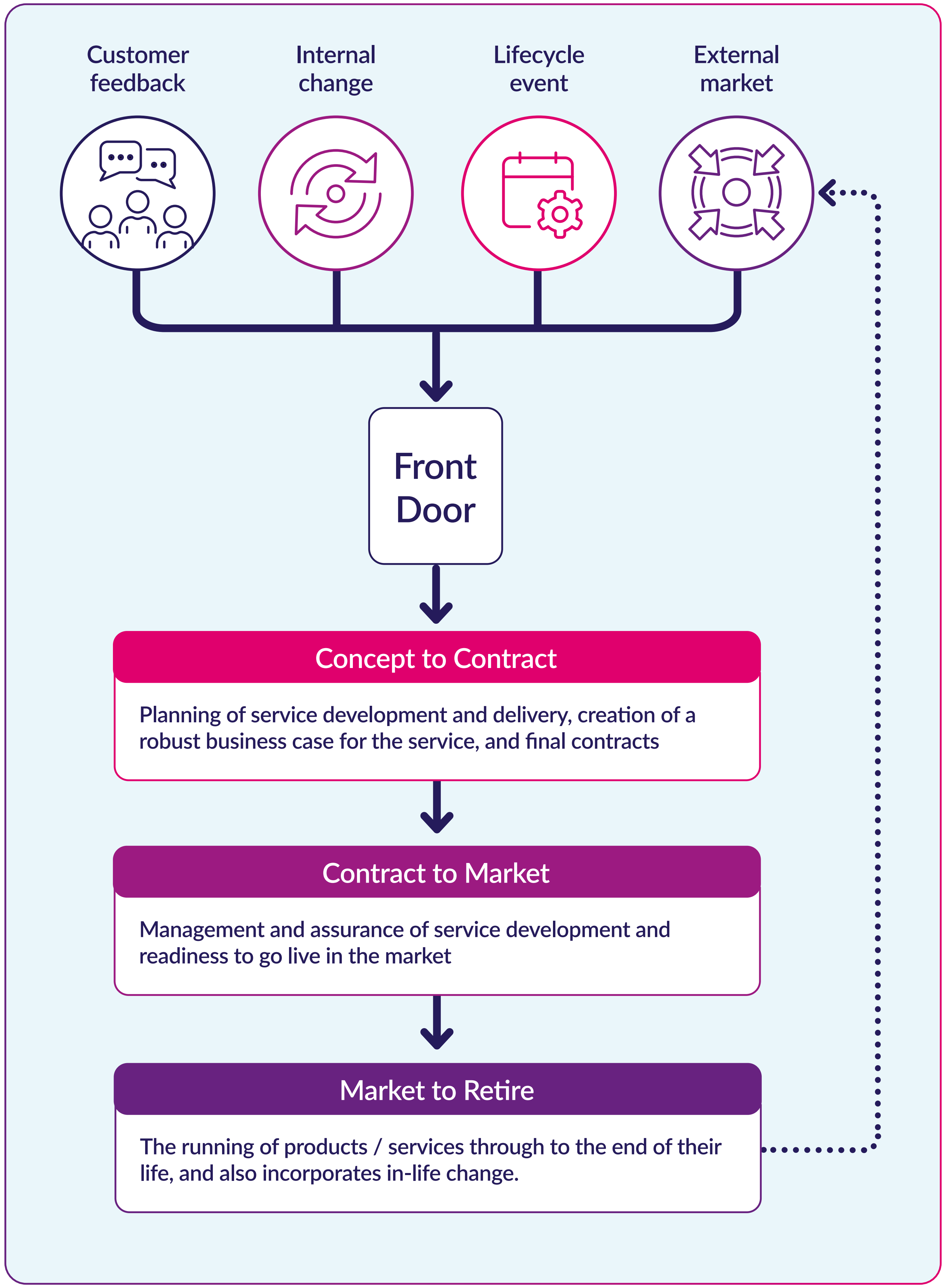
We recognise that as a licenced monopoly we have a duty to be an economic, efficient, and responsible operator, delivering value for money for our customers, because this ultimately delivers value for money for end consumers. We're committed to continuing to seek opportunities to enhance our cost efficiency.

Following feedback from our customers and the findings of an independent assessment of DCC's programme delivery capabilities, DCC intends to adopt PRINCE2 as our standard project management method.

This is designed to support our lifecycle management approach, notably the Concept to Contract and Contract to Market stages, with an internationally recognised, process-based method helping to ensure we deliver right first time and operate as efficiently as possible. In addition, the adoption of PRINCE2 will support a common language across our customer and supplier base, reducing unnecessary misalignment, while also helping to attract and retain staff through the support of internationally recognised certifications. Combined we believe this will help us to deliver an improved experience for both our customers and our people.

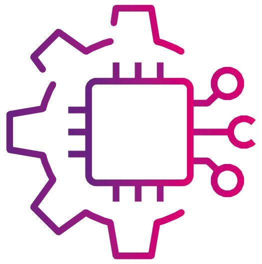
We intend to work with a recognised delivery partner to support us on this journey and ensure the handover from our Change Delivery Methodology (CDM) is as seamless as possible. Subject to detailed planning, we expect the transition to be complete by Spring 2024. We recognise there has been discussion on the use of alternative project management methodologies in the past and are confident that while CDM was the right approach for the early days as an organisation, PRINCE2 is now the right choice to support us on the next stage of our journey as we scale and shift to a more stable operating business.

We are also exploring opportunities to adopt a greater product/ service family approach, utilising international best practice. We will share more information on this as we progress.



Technology

The Office of the CTO is accountable for the design decisions that will enable DCC's role as a key enabler of the digital backbone of the future energy system. It is the design authority, responsible for the integration and assurance of technology systems associated with our licence.



Technology vision

Our vision is to ensure that the DCC network operates efficiently and securely at scale. We will leverage virtualised, secure and scalable infrastructure to ensure we meet our service obligations. Our plan is to simplify the design of our infrastructure and where practical push functionality towards the edge of the network. As we evolve our solutions we will reduce complexity, deliver change faster and drive improved interoperability across end devices to ultimately drive efficiency for our customers and to offer the flexibility to support future policy to deliver a net zero energy system.

We have adopted four key principles by which we will evolve our technology infrastructure:

- Flexibility: The DCC network should be flexible to account for differing technology lifecycles, with configurable and scalable architecture as traffic on the system increases
- Enduring contested change model: Technology should be designed and built to allow for in-life contestable change so that innovation or change to existing services is not limited to the incumbent supplier
- Standards-based design: Technology designs should be standards based to avoid "lock-in" to proprietary technology with specific suppliers and intellectual property rights
- Near-zero downtime: The DCC network is crucial national infrastructure. While nominated critical services, such as prepay vend, must be available and cannot have any sustained period of network disruption, all DCC services should have minimal downtime

We will work towards this vision gradually, recognising the need to balance ongoing performance and continuity of service with improvement and future-proofing of the network, while taking advantage of new developments in infrastructure to harness the benefits of server-less, multi-cloud solutions and evolution in the connectivity solution for the end devices.

Commercial

We rely on external partners to deliver many of our mandated obligations in a manner that ensures secure and stable network performance, resilience, and value for money for customers and ultimately end consumers.

Our Commercial team leads on our procurement activities, contract management efforts and ongoing supplier relationship management with an overarching aim to drive commercial excellence with our external partners to digitalise the energy system.

Commercial focus

As part of our commitment to deliver commercial excellence, to support our broader approach to disaggregate and ensure contestable change, and keep pace with the evolving technology landscape we are focused on:

- Improving and streamlining our core commercial processes to ensure robust yet pragmatic approaches to identifying, delivering, and sustaining value and business outcomes
- Enhancing our digital capabilities to better support the execution of commercial strategies, improve end-to-end operational efficiency and enable proactive identification of risks and opportunities
- Uplifting DCC's Supplier Relationship and Contract Management, embedding industry best practice into DCC's standard processes
- Promoting a culture of continuous improvement across our supply base that goes beyond contracted levels of performance to support the wider DCC's delivery of service excellence and value for money
- Strategy and policies that align to Government Procurement Policy (ie Chartered Institute of Procurement and Supply, Government Commercial Organisation) and deliver a quality experience, for our partners and our people

Security

2022 served up several reminders of why security remains a key focus for all businesses operating in and around Critical National Infrastructure sectors. The DCC is no exception to this. The war in Ukraine has intensified the need to make sure that energy security and resilience remain top of mind, and we are exploring a range of opportunities to ensure that our cyber defences are robust and commensurate with the threat we face.

We have laid out five strategic objectives that build on our threat-led approach and are designed to increase the security of our supply chain through enhancement of our cyber defences and further development of our compliance activities.

In 2023/24 we will:

1. Set revised integrated security baselines that take into account changing economic conditions and the developing threat landscape
2. Provide clear reporting on compliance with our baselines, along with well-defined mitigations where required
3. Continue to integrate and centralise our cyber defences, creating a single 'pane of glass' to monitor the security of Britain's smart metering network
4. Develop our cyber risk maturity and target an overall reduction in cyber security risk over the next 36 months
5. Invest in our people to ensure that we have the skills needed to secure the digital energy system of the future

Cyber Fusion Centre

After the progress made over the past two years, the Security Operations Centre is now fully functional and operating on a 24/7 basis supporting the DCC internal estate and the faster switching service. The next step is to bring security feeds in gradually from all service providers to create a new Cyber Fusion Centre, based at Brabazon House, which will cover all aspects of the smart metering ecosystem.

Ultimately, this will give us a single view of the entire GB smart metering network, across SMETS1 and SMETS2 meters and switching. This will not only allow us to detect any attacks rapidly at any point in the system, but also and most importantly to identify those sophisticated attacks that use parallel entry points in different parts of the system.

We are seeking CREST security testing accreditation for the Cyber Fusion Centre, which means it will be formally certified as capable of meeting the size and types of challenge that lie ahead in our industry.

Supply chain visibility

The Cyber Fusion Centre, coupled with initiatives to allow for easier portability of core services will place the DCC network at an enhanced level of security and in line with National Cyber Security Centre (NCSC) recommendations. This is vitally important as the threat landscape moves increasingly towards supply chain attacks as being the preferred route to compromise large scale systems.

Summary

Maintaining the speed of our progress will depend on machine learning and artificial intelligence that is agile enough to respond to emerging threats, while ensuring that we have the right skills and best people deployed across our security teams. Our combination of rapid threat identification, mitigation and response follows best practice within the security community and will position the system well for the next decade. We intend to measure and monitor our progress through regular independent audits, including the National Institute of Standards and Technology Cybersecurity Framework (NIST CSF).

Operations

We have shifted from a programme-focused organisation tasked with building the smart metering network, to operating and maintaining one of the largest networks in Great Britain. Our Operations team is at the core of this, ensuring that the network continues to run smoothly as we scale, from the timely supply of communications hubs, to 24/7 monitoring in our Technical Operations Centre (TOC), to partnering with our suppliers to drive continuous improvement for the benefit of our customers, to assuring that any new change lands safely.

Areas of focus

To deliver this, Operations are focused on three key areas:

1. Reliable, right first-time levels of service
   - We are continuing to work with our suppliers to ensure we deliver stable, reliable, expected levels of performance, working together to identify where incidents are impacting our levels of service
   - We are fully embedded within our programme delivery teams to ensure our key programmes, eg 4G communications hubs are being designed with in-life operations front of mind and we have the right acceptance-into-service governance and controls in place to enable effective go-lives
   - Finish the job on SMETS 1 migrations, transitioning the remaining meters to a stable service ahead of switch out to 4G
2. Ensuring our people, processes and technology reflect the criticality of our services
   - To support the continued growth and complexity of the network, we're committed to delivering our Next Generation Technical Operations Centre TOC and Service Centre. This will be delivered in phases as part of our DCC Service Management System (DSMS) programme
   - As our network has grown, the volume and complexity of data has increased significantly. We will improve overall reporting, insight and intelligence which will allow us to enhance our data visualisation and self-serve capability
   - We want our Operations team to be a great place to work, for and with. In line with our broader people strategy, we're putting in place the right coaching, training and support to ensure we continue to deliver a quality experience, for our people and our customers
3. Driving collaborative customer and partner outcomes
   - Our suppliers are critical to our success. Without them we couldn't do what we do. Respect, trust and collaboration must sit at the heart of our supplier relationships. In line with our commercial strategy, we are introducing new contracting frameworks and seeking to embed better partner relationship management to build mutual understanding and collaboration
   - The energy and cost of living crisis has focused greater attention on the support provided to vulnerable customers, particularly those on prepayment meters. We are committed to ensuring we do everything we can to support vulnerable customers. We are adopting a 'never fail a pre-pay' mindset to drive focus and support to prepayment messages

Our capabilities

Since the DCC was established, we have built an organisation capable of delivering complex, technology-enabled change programmes. As we have evolved, and the smart meter roll-out has progressed, we have shifted to become a more stable operating business, capable of ensuring reliable network performance on a 24/7 basis, while maintaining the security and resilience of a vitally important element of national infrastructure.

Our core capabilities as an organisation include:

Technical and service operations
We proactively monitor our network on a 24/7 basis using best practice to maintain availability of our systems, while also providing operational insights to our customers, the government, and the regulator

Security operations
We have a built a 24/7 Security Operations Centre (SOC), which actively monitors security threats and operates to NCSC standards

Procurement and contract management
We have significant expertise in designing, procuring, and managing complex, high value contracts

Device management
We have had to develop highly technical processes and systems to support thousands of device model combinations in use across the industry

Design, programme delivery, test management and assurance
We have designed and built one of the most complex pieces of digital infrastructure in the world

Measuring performance

The DCC's performance and financial incentives are assessed by Ofgem through our annual price control submission and the Operational Performance Regime (OPR).

The three areas of focus for the OPR are:

- System performance
- Customer engagement
- Contract management

DCC Public

Our strategy in action

Smart meter roll-out

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

- **Customer Relationship Management –** we are at the forefront of all service-related customer engagements and are accountable for driving customer experience / service improvement, customer advocacy, and strategic customer engagement
- **Products and Logistics** – we work closely with energy suppliers and the supply chain to ensure communications hub deliveries are maintained
- **Operational Change and Acceptance –** we shape and protect Customer Service and Operations by designing the Operational ways of working and supporting processes as well as taking Programmes into BAU
- **Supplier Relationship Management –** we have increased the bench strength of our internal teams who lead these relationships to drive improved engagement and communication with our suppliers, ensuring a 'one voice' approach
- **Core Operations –** we deliver the core services to our customers, including the Service Centre, Incident Management, Problem Management, Change Management, and Release Management. We also provide the Technical Operations Centre (TOC), Migration Control Centre (MCC) and Hypercare
- **Operational Strategic Intelligence –** we produce mandated and non-mandated reporting, and build and deploy analytical capabilities to support the services provided by DCC. We assure inputs into the COO, ExCo and Board as well as Operations strategy and budgets

Network Growth

- In 2019, we had 3.1 million meters on our network. Today, we have 26.5 million with DCC predicting 45 million meters by 2026
- As a result of this growth, the volume of messages over our network has increased significantly – from 115 million messages per month in 2019 to 1.4 billion messages per month at the end of FY2022/23
- 'Other Users' have seen huge benefits in utilising the DCC network to access consumption data, the result of which helps consumers manage their daily energy consumption. The activity and system usage from Other Users grew over the last 2 quarters of FY2022/23, and we are seeing increases of circa 66.9% between the totals for the 12 months to April 2022 and the subsequent 12 months to April 2023. The monthly utilisation is on a steady upwards trajectory now, and this trend is expected to continue over the course of the year as innovators continue to show interest in obtaining consumption data from the DCC network
- We've moved to quarterly price changes, which drive an increase in service requests of up to 20% on the day of the price change, and we've handled ~8.1 million Energy Bill Support Scheme (EBSS) payments
- Whilst managing extra demand, we had 2,800 changes introduced to maintain service reliability across SMETS1 and SMETS2 in 2022 and have seen a 9% reduction in major incidents, with only four incidents over the year failing the obligation regarding system restored within agreed timescales. There has been a reduction of 1,051 minutes' downtime related to major incidents when compared to 2021
- We continue to achieve 98% success rates for firmware downloads onto Communications Hubs. We are now seeing comparable achievement of firmware downloads across the three CSP regions.

Operational Performance Regime (OPR)

We measure our operational performance against the measures included in the OPR set out in the Licence. Our performance is assessed against service provision and customer engagement. These are assessed against specific assessment criteria set by Ofgem and final performance scores will be concluded through the price control process[3].

Install and Commission performance was impacted by one message type (SRV 8.11). We have been working with Service Users and Service Providers to drive improvements.

The Prepayment performance figure is driven by one specific customer journey. We are continuing to engage with the relevant supplier on enhancing performance and implementing fixes.

Some of the new measurements used this year define the end-to-end metrics that customers use to determine if their valid attempted journey has successfully landed on a meter. This has been validated by Industry and is the metric used on the agreed Business Process Indicator report, presented in monthly forums. For example, the way Prepay is now measured aligns with how customers measure vend success. Continued refinement of all metrics is ongoing to accurately portray success.

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

	Operational Performance Regime		
Assessment Metric	Service Availability	Install & Commission	Prepayment
Target	99.50%	99.00%	99.00%
Financial Year 22/23	99.99%	97.01%	99.87%

The following unique KPIs are measured and tracked alongside OPR – all measures out turned above target performance:

	Key Performance Indicators		
Assessment Metric	Customer Effort	Customer Journey Success Rate	Communicating Comms Hubs
Target	5.7	95%	90.00%
Financial Year 22/23	6.0	95.61%	96.59%

3 Further information about the OPR can be found on Ofgem's website

SMETS1

The SMETS1 Enrolment and Adoption Programme is a highly complex and technically challenging programme. It is enabling the migration of more than 15 million first-generation SMETS1 smart meters onto the DCC network where they will become fully interoperable between energy suppliers. This allows consumers to switch energy suppliers seamlessly without losing smart functionality and will also deliver significant savings to the Industry.

Our key focus during 2022/23 has continued to be on stabilising the platform, along with cohort closure as we reach the final stages. We have successfully closed down the IOC phase and continue to focus on progressing MOC and FOC migrations.

We have also held consultations with Industry to agree Transition And Migration Approach (TMAD) changes, which have allowed us to align data discrepancies to aid the closure of cohorts.

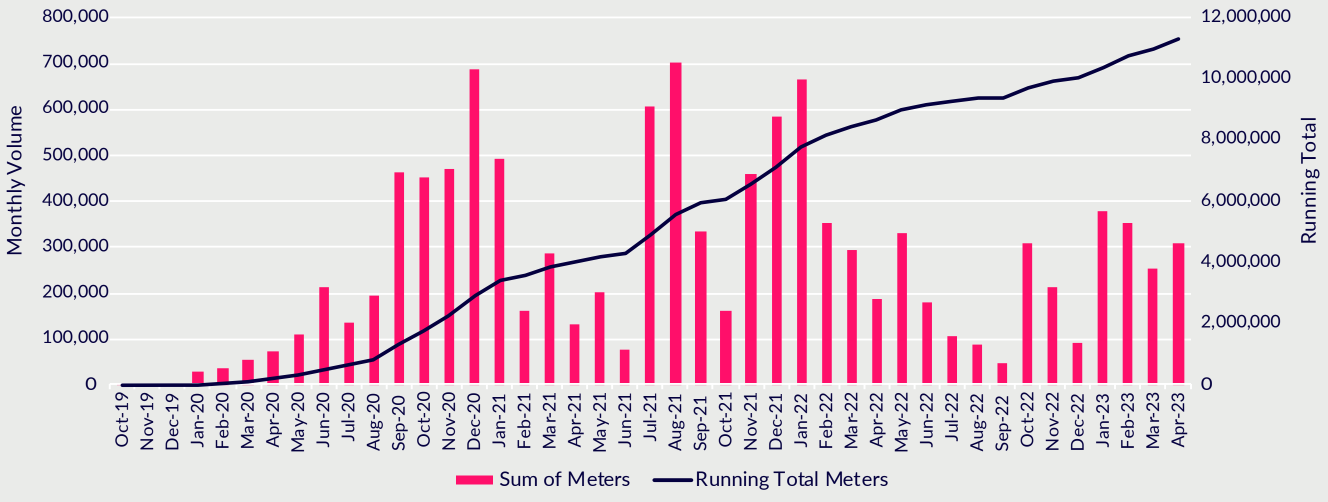
2022/23 Highlights

- 10.9 million migrated as of 31 March 2023 (8.4 million as of 31 March 2022)
- Following migration:
  - 92% of all dormant meters have been made operational
  - 96% of active meters have been made operational
  - 90% of all mixed meters have been made operational
  - 94% of those migrated are connected to the DCC network as of end of March 2023

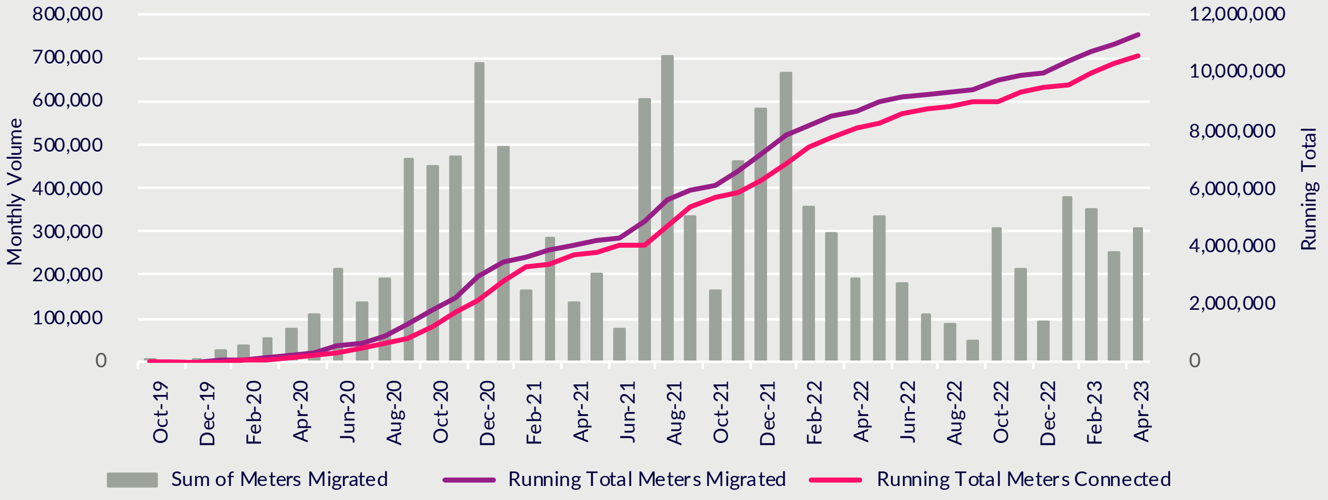
Migration performance

Our migration performance remains strong, with over 99.7% of migrations delivered 'right first time' (RFT).

SMETS1 Migrations (meters)



SMETS1 Migrations & Connected (meters)



Faster and More Reliable Switching

As Ofgem's key delivery partner, we operate the Central Switching Service (CSS), which provides the capability for domestic energy consumers to switch energy supplier on a next-working-day basis and non-domestic customers on a two-working-day basis. The CSS is now the central service for faster switching.

The go-live of the Switching service was a significant milestone in the transformation of the retail energy market. It aims to increase competition and provide a foundation for innovation, leading to improved consumer value, experience, and engagement with the market.

After a period of extended Hypercare and enhanced monitoring until March 2023, Switching has now transitioned into BAU operations under the DCC Service Ownership team. Performance to date has been highly successful with only 0.02% switching requests failing validation, and 8.6 million successful switches through CSS.

DCC service desk is fully operational, having handled over 80,000 incidents since July 2022 with a focus on ensuring timely and accurate resolutions for customers.

Multiple REC change requests have been raised to look at service improvement to CSS to ensure it remains a robust and resilient service. A BCDR Test event has recently successfully taken place to further prove this resilience.

Other programmes

Enduring Change of Supplier (ECoS)

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

In 2022/23 we continued to work on programme and operational readiness activities, which will ensure the successful delivery of ECoS in 2023.

Great British Companion Specification (GBCS)

We are mandated by BEIS to develop, test, and deploy new firmware to all operational Communications Hubs in line with each update of GBCS.

DCC continues to deliver GBCS compliant changes in alignment with its SEC obligations. Currently the South and Central region is GBCS 3.2 compliant with the Northern region due to be compliant by Q4 2023. Development of GBCS 4.1 is progressing for initial deployment late 2023.

Re-use – A platform for policy implementation

Customer led system enhancements

One of our key objectives is to help our customers improve the efficiency of their systems and processes, to improve the customer experience of working with DCC and enable the development of innovative products and services for the end consumer

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

DCC Boxed has been developed with input from our customers. The product was launched in April 2022 and is designed to emulate the smart metering network. It offers a suite of testing tools that enable authorised users to better understand, enhance or develop their own solutions.

The primary role of our test labs is to support our customers' core business testing needs. However, they can also be used to demonstrate additional functionality within the smart metering system, such as load control, or to facilitate innovation using new devices and applications. We would welcome the opportunity to work with our customers on enhancing these services so that they can derive maximum value from them.

Re-use the network for public good

Working with our key stakeholders, we want to ensure our vision is fully aligned with the energy transition. We want to support, enable and accelerate government polices to reach net zero, deliver greater benefit to society and reduce unit costs for DCC's existing customers, all in line with our vision and licence obligations.

We aim to do this through maximising use of our infrastructure. We have a unique combination of network and system capabilities, run by an expert organisation providing programme delivery and in-life operation that can be used as a platform for policy interventions in support of the energy system transition. Working with our stakeholders, the DCC can be utilised in the delivery of wider public benefits and social value.

The Demand Flexibility Service (DFS) is a demand-side response service which incentivises customers and businesses to reduce electricity usage through financial reward. It first launched in November 2022 and saw significant success in reducing carbon emissions and increasing Great Britain's energy security. It paid out £11 million to 1.62 million households and businesses who participated, saving over 3,300MWh, enough to power nearly 10million homes. The smart metering network had an important role to play, with a smart meter facilitating consumer participation. We continue to engage with and support the ESO on highlighting the benefits of smart meters in supporting vulnerable customers, reducing carbon emissions and changing consumer behaviour, especially as we learn the lessons from last winter ahead of winter 23/24.

In addition, we responded to the Government's policy proposals for a Smart & Secure Electricity System which identified the potential role of DCC and its cybersecurity capabilities could play in underpinning the interoperable demand side response services that will be needed to support the energy system transition.

Culture and Capability

Business accuracy

The Business Accuracy programme was launched in 2021 and continued to develop throughout 2022/2023, focused on improvements to DCC's business planning and performance management framework. This is critical given the increasing volume and complexity of programme activity we are managing.

Programme benefits

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

What we've achieved in 2022/23

- Enhanced Performance Reporting – Compilation of automated reports for ExCo and Board meetings including Finance, People, Risk and Commercial data and metrics
- Embedded Front Door process & Roadmap – A single view of what is on the horizon and a defined entry point for change initiation across DCC
- Forecasting (Lock Process) – The process and principles by which the financial objectives of the business are translated to consistently accurate budget submissions
- Financial Planning Tool – To complement the DCC Lock and Annual Business Planning process delivered in 2022
- New Purchase Order tool – Conversion of contractual procurement activity into a financial entry to enable improved efficiency in supplier payments
- Customer Invoicing – Improved process for producing invoices to customers including self-service options and increased efficiency
- Time Recording – Process to support users recording time in order to allocate costs accurately to programmes/projects
- Business Process Mapping – End to end mapping of key processes and activities

Our people

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

This year we have continued to deliver against our three-year People Strategy that ensures the DCC has the capability it needs and enhancing our employee proposition and people experience.

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

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

Workforce and Capability

As DCC continues to evolve, it is important that we develop a robust talent approach, closely aligned to the business strategy. As DCC moves closer to licence renewal, it becomes essential to align the talent approach with the identification of critical skills needed through this period and beyond.

We have begun work to design a strategic capability process, which will help us define critical skills required for DCC, both now and in the future. The outputs of this will help us a define a proactive workforce strategy, that will future-proof our critical skills and capabilities and look at opportunities to source talent effectively and efficiently.

During this year we have also made significant strides in our succession development with all ExCo successors completing a leadership and potential assessment. The outcome of these assessments resulted in a Leadership Profile for each successor, highlighting their key strengths, areas of future development, and their potential to assume higher leadership positions within their respective business areas or potentially in alternative Executive Committee (Exco) roles. These assessments have allowed us to have a comprehensive understanding of their abilities and potential, enabling us to make informed decisions regarding their future roles within the organisation. In addition to this, we have launched a DCC wide leadership program, for all members of the leadership community.

Leadership

The introduction of a new set of DCC Values and Behaviours took place during 2022. These Values and Behaviours, co-created with colleagues across the business, is pivotal to maturing the business and evolving the culture from a programme-led to a secure and stable operating company. In September 2022, an all leaders event provided an immersive experience to familiarise leader with the new values, understand how these values manifest within DCC, and reflect on their own alignment with them as individuals. As part of this process, all leaders underwent assessment, aimed to identify areas for behaviour change in support of the values and provide guidance on becoming more effective members of the DCC Leadership community.

The Hogan evaluations, coupled with individual assessments against the new values and behaviours, have played a vital role in shaping the content of the upcoming DCC Leadership Programme, scheduled to commence in June 2023. This comprehensive programme, designed for all leaders across the organisation, will concentrate on developing core leadership skills that are firmly grounded in newly established values and behaviours.

Furthermore, a DCC Leader profile has been implemented to outline the attributes and expectations associated with being a Leader at DCC. This profile has been integrated into the newly developed Hiring Manager toolkit and the revised Performance Management approach. By incorporating the DCC Leader profile, we aim to ensure consistency in the selection and evaluation of Leaders, improve performance and drive improved colleague engagement.

Culture Transformation

To ensure employee feedback and participation in shaping the business, we conduct regular "Your Voice" surveys at DCC. These surveys serve as a formal measure of employee satisfaction and complement our existing communication channels. We value our employees input in influencing how our organisation operates.

Our quarterly pulse surveys capture employees' perspectives on various aspects of the workplace, including their relationship with their managers, observed behaviours, and the effectiveness of what we do and how we are listening. Additionally, we measure the employee Net Promoter Score (eNPS), which gauges their likelihood to recommend DCC as a great place to work.

In our most recent Your Voice survey, we achieved our highest-ever participation rate at 85%. After a downward trend in engagement during Covid-19 lockdown, we are pleased to report a notable improvement (+20 points) in the employee New Promoter Score (eNPS).

Furthermore, there is compelling evidence that our new values resonate with employees and are effectively remembered, with all three values having a successful recall rate of over 97%. Our overall blended positivity score also improved significantly (+7% points).

As we continue to embed DCC's new values, there is a marked improvement in employee sentiment that behaviours are aligning to company values (+8% points). Additionally, 71% of colleagues believe that they are being listening to and action is being taken.

This year in February and March we held on-site Town Halls in each of our three offices to discuss our cultural progress and actions taken on colleague feedback.

In terms of embedding our new values and behaviours, we have begun to incorporate these within our ways of working and people processes, including aligning performance management with our values, integrating into selection and assessment materials and upskilling leaders on behaviour selection techniques. Additionally, we have updated our employer brand, to ensure we talk more openly about our culture and attract the right talent to DCC.

Overall, we remain committed to creating a positive work environment and will continue to focus on our priority of improving employee engagement at DCC to ensure a stable and committed workforce

Diversity and inclusion

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

This year, we have worked to increase the quality of our diversity data, encouraging our employees to be counted so we can better understand our current levels of representation and opportunities to improve

The overall diversity of DCC benchmarks favourably compared to tech industry norms with the current gender split being 62% male, 38% female. 22% of DCC colleagues being of ethnic minority.

Whilst we have seen marginal declines in the percentage of females at executive level, improvement have been seen across all other levels.

- 42% ExCo members are women (2022:50%)
- 25% of our Director level staff are women (2022: 22%)
- 36% of our Senior Managers are women (2022: 34%)
- 36% of our Managers are women (2022: 29%)

Furthermore, we will continue to focus on ensuring a diverse ethnicity mix at senior levels to ensure the leadership population is reflective of the broader business.

As part of our talent and succession strategy, we insist on diverse short lists to improve our diversity mix at leadership level. This year, we will also be focusing on how we nurture diverse talent to better progress through the organisation.

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

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

We share the philosophy adopted by Parent company Capita and ensure that the policies we have enable our disabled employees to thrive and develop at DCC. We have access to CHOIR, Capita's new Diversity and Inclusion Hub where the Capita Ability Network (CAN) have their own space for addressing and educating on all disability-related matters. Our people also have access to the Capita Reasonable Adjustments Procedure and Passport

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Employee Value Proposition

During 2022/3, we continued to place significant focus on our reward and recognition agenda.

We continued our commitment to refresh our salary ranges to have a clear link to the markets in which we operate and ensure our reward is competitive yet efficient.

The 2023 pay and bonus award was successfully delivered with the support of the Board. In addition to the 5% cost of living increase we uplifted a small number of employees base salaries where pay was identified as below the market rate.

We continue to recognise our employees through the Smart Stars recognition platform and to recognise on-going cost of living challenges will be launching a new discount platform for employees during 2023.

Gender pay

Hourly pay	2023	2022
Mean pay differential (average)	11%	16%
Median pay differential (mid-point)	8%	12%
Bonus pay	**2023**	**2022**
Mean pay differential (average)	12%	38%
Median pay differential (mid-point)	43%	42%
Proportion of employees receiving a bonus	**2023**	**2022**
Men	79%	73%
Women	87%	74%

The Mean pay gap in FY2022/23 has reduced to 11% from 16% in FY2021/22. Both the mean and median pay gaps continue positive trajectories and are below the UK average of 14.9% in 2022.

Two key initiatives in FY2022/23 which maintained DCC's positive approach to Gender pay, was annual pay review focused on increasing base salaries of employees below the minimum of their ranges and the continued improvement of representation of women in senior roles.

Proportion of women receiving a bonus increased by 12.9%,

Delivering for our customers

DCC remains committed to ensuring our customers are central to our actions and behaviours. We've continued to implement standardised and improved approaches for engaging our customers on matters important to them as well as making changes to the way we work across DCC. This includes:

- Codifying our commitment to delivering for customers in our new company wide values and behaviours, launched in October 2022
- Continuing to provide opportunities for customers to inform our strategic plans through input and consultation over our Business & Development Plan, published each year
- Continuing to increase the transparency and granularity of information DCC provides to our customers in order to aid collaboration and decision making. This includes the sharing of more granular and new information, such as business cases, through the Quarterly Finance Forum as well as actively increasing the volume of SEC Panel papers accessible to all SEC parties, with all confidential papers accompanied by a green classified paper to ensure industry had visibility of the topic even if sensitive material needed to remain under NDA
- Establishing a high-level escalation capability to provide our customers, consumers and wider stakeholders with a point of contact in order to resolve their most pressing issues. To date, this has enabled >50 smart meter installs that otherwise would not have progressed
- Further progressing implementation of a standardised and improved approach for engaging customers on change through the joint development of the Programme Assurance Policy with SECAS, including a monthly report which is already being provided to SEC Panel
- Collaborating with our customers on our outage planning proposals, ensuring customer impact is built into our planning and decision making
- Improving key business processes such as the management of pre-payment meters through the introduction of service ownership, a way of working which will continue to mature within the DCC

Sustainable business

Achieving carbon neutrality as a business for the past three years demonstrates our aim to be a socially responsible organisation.

In 2022 we created a responsible business framework to extend our sustainability goals to include our supply chain, our people and the local communities where DCC's employees and offices are based.

We have appointed a Head of Sustainability and a Sustainability Manager to aligned DCC's carbon ambitions with United Nations Science Based Targets.

Our carbon intensity per head has reduced further as we balance the needs of collaborating in person and working remotely. This has been independently assessed and verified by Carbon Trust Limited.

We have arranged carbon offsetting purchases with Carbon Footprint Limited to support our carbon neutrality goal with £3,500 going towards supported grid connected renewable solar energy power plants in India. All our electricity supply is sourced from 100% renewable sources.

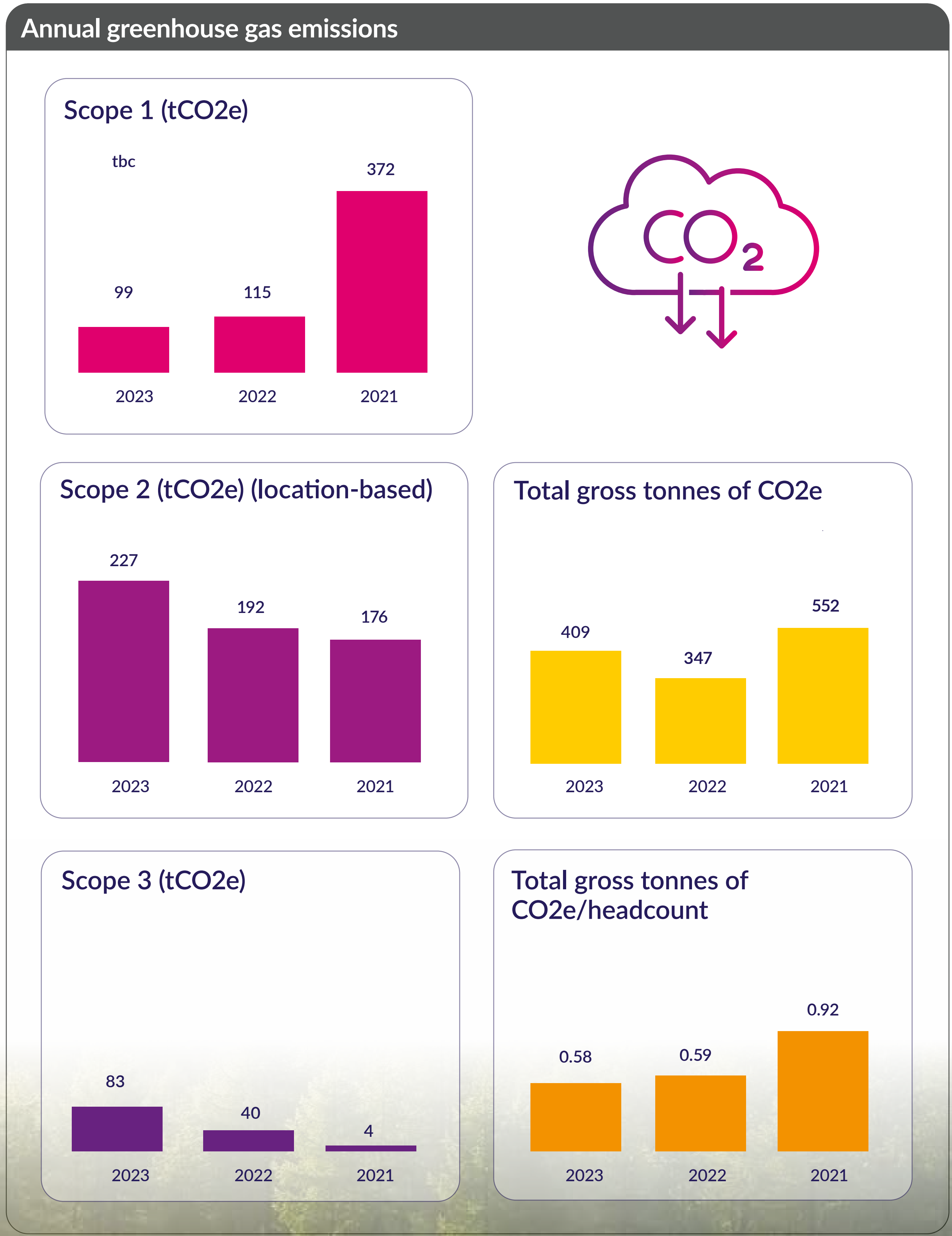
Electric Vehicle (EV) charging points are now available at both our Manchester and Nottingham offices. 15 of our employees have selected an electric vehicle through the employee benefits system and are making use of our charging points.

Methodology

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

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

Volunteering remains an important aspect working at DCC, and professionals from Commercial, Finance, Human Resources, Regulation and Service Delivery formed the Responsible Business Team, who continue to role model our corporate behaviours so we can lead 'smarter, greener lives', a commitment which is at the heart of our company purpose. A number of employee volunteering events during the year have demonstrated this commitment, including 10 of our colleagues volunteering to support children with reading skills through our partnership with online reading organisation Chapter One(U.K.) Ltd.



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

Risks

Overview of Risk Management and Internal Controls

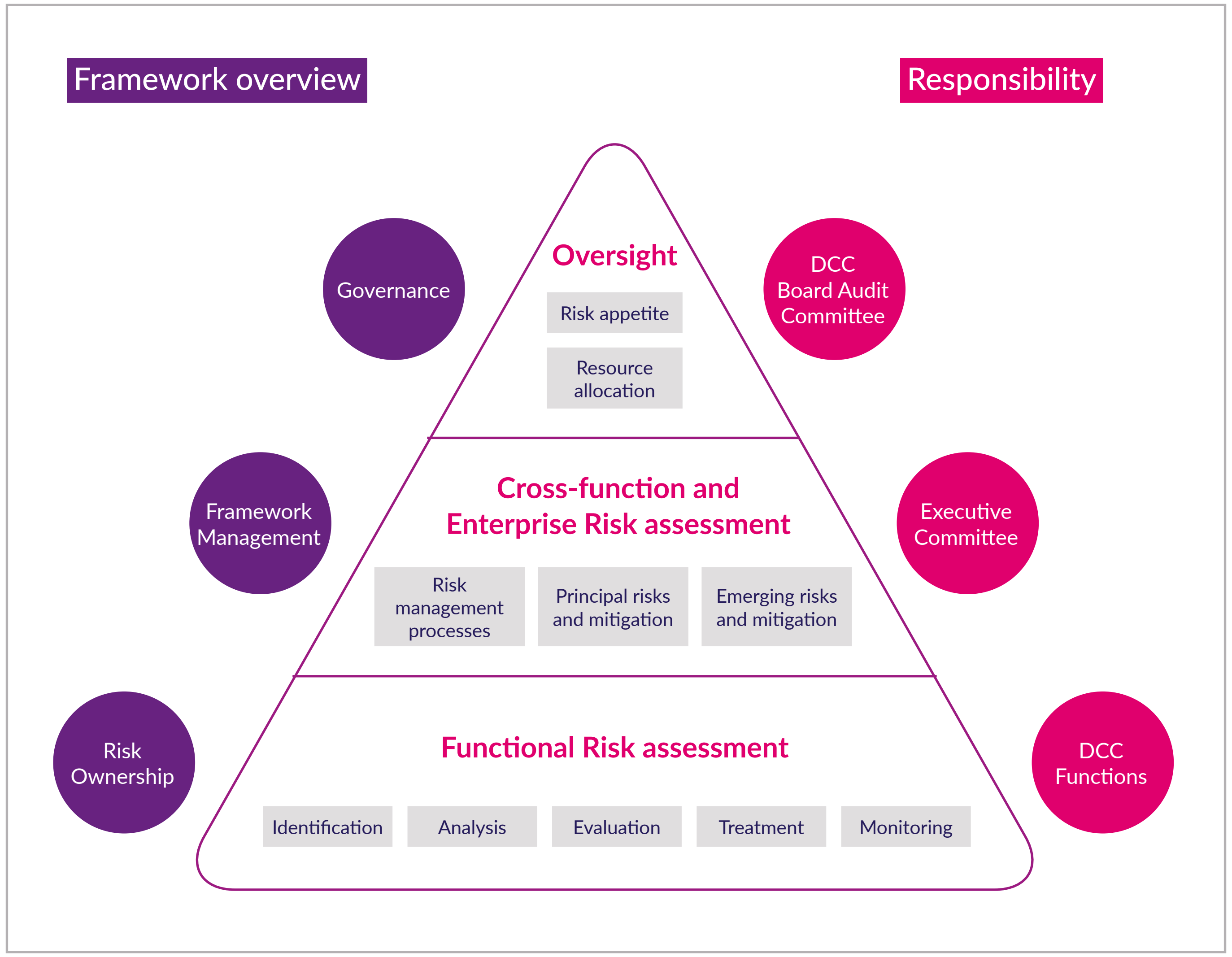
Effective risk management and internal controls are key to the successful delivery of our strategic objectives. Our goal is to minimise the threats and maximise the opportunities for the benefit of our customers, stakeholders and employees within the overall context of the DCC Licence.

Our risk management approach is consistent with the principles of ISO 31000 and is a layered approach including Strategic and Enterprise risk, Functional risk and business process risk management. Our Business Resilience and Disaster Recovery Policy and Process, which is integral to our Risk management approach has recently been awarded ISO22301 certification. Our internal controls framework is based on the three lines of defence model to ensure that DCC complies with all Code (SEC and REC), Licence, internal and UK Corporate Governance obligations. Our information security controls are audited and certified to ISO 27001.

Our Risk Management Approach and Governance

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

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



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

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

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

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

Internal Controls

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

DCC Internal Controls and Compliance Framework

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

Each DCC function has responsibility for the documentation and management of its own specific operational policies, processes and procedures, which link to DCC's over-arching Operational Lifecycle management processes and to maintain transparent and reliable audit trails. All our policies are published to staff on the DCC secure intranet.

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

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

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

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

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

Internal control and risk management

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

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

The 2023/24 internal audit plan was approved by the Committee in November 2022 and includes both risk-based audits and a rolling schedule of policy audits that ensures all Company policies are audited over a three-year period. The risk-based audit schedule for RY2023/24 includes a focus on Security (data security and management), Commercial process transformation, Regulatory compliance, Continuity of Services, and our ability to manage Price Control and demonstrate VFM.

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

Regular reporting to the Committee during the year included:

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

Principal and Emerging Risks

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

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

The latest risk position and movement in risks during RY2022/23 is summarised below:

Risk	Context	Mitigation	Residual risk	Net Move
Material DCC security incident and/or data loss	A security breach or data loss incident could have significant consequences for our customers and energy consumers and is a significant threat to the business.	• DCC is secure by design and assured by the UK Government and Security Services. The security framework and controls are regularly audited and tested, and security is a primary focus of the Board. DCC operates a SOC, which monitors and assures effective security controls across the DCC systems and network. DCC has full accountability and responsibility to secure the DCC systems infrastructure, accountability to assure security controls across the Smart Metering Network and we participate in the security of the wider UK energy system.	Low	→
Persistent DCC non-compliance with Licence or Codes	DCC operates in a complex regulatory environment with many compliance criteria and ongoing change. A material compliance breach or persistent non-compliance with Licence or Code obligations could result in loss of the Licence.	• DCC operates a comprehensive compliance management framework that ensures traceability of all Licence and SEC Code obligations to a responsible business owner. DCC has fully baselined the latest versions of both the Smart Energy Code (SEC) and the Retail Energy Code (REC). Regular testing is conducted to assure ongoing compliance, and identified non-compliances are reported to the ARC.	Low	↓
Consumer impacting Prepayment service failure	Energy consumers operating in 'prepayment' mode are dependent on digital vending services and correct function of the supply connect and disconnect service on the smart meter. It is essential that these services are robustly protected and a DCC failure to ensure service performance and continuity could result in a critical impact to consumers and in loss of the Licence.	• DCC operates a TOC which monitors potential service risks across the ecosystem including prepayment service performance, and proactively supports incident response. • DCC has a defined Business Disaster Recovery Policy that is tested regularly to ensure any service continuity issues are dealt with in an effective manner. • Any planned system downtimes are communicated to customers with at least 6 weeks' notice to ensure any disruption to services can be minimised.	Low	→

Risk	Context	Mitigation	Residual risk	Net Move
DCC unable to deliver and demonstrate effective cost management and value for money	DCC is a licenced monopoly and all DCC charges are passed through to our customers. A failure to demonstrate effective cost controls and discipline could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a regular cycle of finance forums with our customers, providing detail and transparency on our charging statement and costs. • DCC customers are engaged in decisions on costs through relevant industry forums including the SEC Panel and SEC Operations Panel. • DCC is engaged in ongoing work with customers and the regulator to improve the transparency and traceability of decisions on new activities and costs and we have recently completed a detailed cost benchmarking survey which has informed new cost management activities for the future. • DCC has a procurement and contract management function that ensures all externally procured goods and services are procured through an open and transparent competitive process. • DCC operates a financial control framework that delivers budgetary control over all expenditure, which has been significantly enhanced in 22/23 by the implementation of Business Accuracy Framework which is providing much greater insight of business planning and associated costs.	Low	↓
Reputation damage associated with negative media coverage or commentary	The Smart Meter Implementation Programme is a high-profile government policy and attracts significant mainstream and social media attention. An ineffective or un-coordinated approach to manage a crisis event or to address inaccurate or negative media reporting could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• The Company has established a collaborative approach with The Department for Energy Security and Net Zero, Ofgem and industry partners to coordinate media response when and as appropriate. • The DCC has established media-monitoring processes to identify and respond to content with a reputational impact. • Crisis management plans are established, and capability is regularly tested to assure performance.	Medium	→

Risk	Context	Mitigation	Residual risk	Net Move
Poor Operational Perform Regime (OPR) or Critical Success Factor (CSF) outcomes causes reputation damage to DCC	DCC customers are dependent on the availability and performance of the DCC network and communications hubs to complete the smart meter roll-out. In turn the DCC's margin is earned through a broad set of metrics which measures service performance, effective contract management and customer engagement. This aligns the DCC margin with customer success outcomes.	• OPR and CSF metrics are regularly reviewed at Management and Board Meetings and corrective action put in place where metrics are not meeting expectations. • Operational service performance is monitored by the TOC which identifies potential service risks across the ecosystem and proactively supports risk mitigation and incident response. • Operational planning and monitoring processes are in place to assure network and supply chain capacity is sufficient to meet the planned demand from our customers. Service Provider performance, which underpins all aspects of DCC service delivery and operations, is regularly monitored and risks and issues are reported to the Board. • Regular customer bilateral meetings have been introduced to enhance existing Customer Engagement processes and ensure customer expectations for engagement are being met. DCC operates a contract management framework that ensures best practice in the way contracts are awarded and managed. Ongoing assurance activity (including internal and external audit) ensures that these controls are operating effectively. • The Business Accuracy Programme is already delivering improvements in business planning to ensure accurate delivery for customers, and this will be further enhanced in 23/24 by the conclusion of the transformation Commercial processes, which is near completion, and the implementation of the Prince 2 programme delivery model.	Low	

Risk	Context	Mitigation	Residual risk	Net Move
Service failure or degradation due to service provider failure	The DCC may experience service failure due to a design flaw impacting performance, or the financial distress of a supplier within its smart metering supply chain.	• DCC runs a technical design authority that is responsible for assuring all technical designs. • DCC operates a Supplier Relationship Management function to engage regularly with our Service Providers. We have also implemented a Supplier Risk Committee to oversee the Commercial and Financial resilience of our extended Supply Chain. • Dashboards highlighting potential financial distress are maintained for key suppliers. This is being extended to service provider subcontractors. • All critical supplier contracts have performance metrics that ensure delivery of the services in line with stakeholder requirements. Failure of these metrics by any supplier results in the need for an immediate rectification plan. • DCC maintains a rating for each supplier to determine their performance and any deterioration in this rating due to service or relationship issues will result in an agreed remediation plan and is being further enhanced by the development of Strategic Risk Assessments for each of our core suppliers. • Our detailed Risk review of the Technology upgrades required for the long term to ensure continuity of services was updated in 22/23 and new business cases for the required investment are currently under discussion with stakeholders.	Medium	
Service failure or degradation due to customer-introduced change, usage or behaviour	The smart meter ecosystem includes meters and other devices that operate on the DCC network but are not controlled by the DCC. Change introduced or deployed onto these devices by DCC customers has the potential to cause material service degradation across the network. A failure by the DCC to appropriately manage or respond to customer-introduced service-impacting change could result in reputation damage to DCC and loss of credibility affecting future Licence award.	• DCC operates a change coordination process with customers to reduce risk. • DCC encourages collaborative working with device manufacturers to test new devices or planned changes prior to deployment and this is being supported by further enhancements and an expansion of our technical testing services, which will go live in Q2 23/24.	Medium	

Risk	Context	Mitigation	Residual risk	Net Move
Service failure or degradation due to internal capability, process or controls failure	Failures in internal processes and the controls framework result in service failure.	• DCC operates a standard Change Delivery Model and governance structure to provide control over all programme activity and assure delivery of expected functionality. This being enhanced in 23/24 by the adoption of the Prince 2 change delivery methodology and further enhanced by the development of new company wide 'Lifecycle' management processes which track enhancements from concept through their development and operational lifecycle to retirement. • These processes form part of a broad set of standardised and documented policies and procedures that act as controls for core processes across the business.	Medium	→
DCC unable to maintain a well-resourced, skilled and motivated workforce	Loss of key staff on critical programmes or operational activity could significantly disrupt business performance.	• Staff turnover and attrition are regularly monitored at DCC Executive Committee, and critical role succession planning is in place. • DCC regularly surveys employee engagement, and improvement in engagement scores is included in corporate objectives. • Company-wide development programmes support our 'one-DCC' culture and employee-retention, and a company-wide Leadership programme is driving improvements in engagement and motivation for all staff.	High	→
HSE incident due to poor DCC controls	DCC operates across multiple sites with facilities including radio-frequency testing which are visited by multiple external parties. In addition, DCC has a duty to ensure that effective consideration and controls for HSE risks are in place across the DCC ecosystem and all relevant Service Providers. A failure to ensure appropriate HSE controls are in place and operated could result in avoidable injury or damage to people or the environment.	• DCC operates a 'zero tolerance, zero harm' HSE policy supported by a comprehensive HSE management system, including operational HSE controls, audit and inspection. • HSE controls and compliance, and staff wellbeing are regularly reviewed at Board.	Low	→

Risk	Context	Mitigation	Residual risk	Net Move
DCC fails to deliver an effective Elective Communication Service capability and demand for DCC services	The Licence requires DCC to seek and optimise re-use of the DCC network and innovation in new services. A loss of confidence by existing stakeholders in DCC's ability to deliver the core smart meter service could inhibit the pace or direction of future re-use and innovation. In addition, if DCC is unable to provide a suitably attractive and flexible environment for innovation then existing or new customers may choose not to develop new products on the DCC platform.	• The Company is taking a measured approach to re-use and innovation, monitored by the Board, to ensure no detriment to core delivery. • The next steps for this will be informed by the Licence renewal process and the expectations of stakeholders which will be included in the new Licence in 2026. These expectations have not yet been documented and will become clearer during 23/24. • Opportunities and scope for re-use and innovation will continue to be reviewed and prioritised in collaboration with key stakeholders including BEIS and DCC customers.	Medium	→
DCC fails to secure a role for Electric Vehicle charging	The DCC is uniquely placed to play a meaningful role in a UK-wide strategy in relation to Electric Vehicle charging.	• The DCC continues to focus on its core delivery, but also maintain relationships with BEIS and other Electric Vehicle charging stakeholders to raise awareness of the benefits of reusing the smart metering system in relation to Electric Vehicle charging. • However any further developments in this area will be determined by the expectations in the new Licence.	High	→
Solvency and liquidity	Poor cash management or a significant fraud could result in DCC becoming insolvent or unable to meet its financial covenants.	• The Company operates robust financial planning and control processes. Financial stability arrangements are in place with the DCC parent company (Capita plc). • Fraud controls are regularly audited to ensure effectiveness and compliance.	Low	→

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

Financial performance

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

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

	2023			2022		
	Adjusted costs (£m)	Statutory costs (£m)	Variance (£m)	Adjusted costs (£m)	Statutory costs (£m)	Variance (£m)
Key suppliers	429.8	331.1	98.7	345.4	286.5	58.9
Other suppliers	20.0	17.6	2.4	25.4	25.8	(0.4)
Administrative costs	139.9	174.5	(34.6)	122.8	128.0	(5.2)
TOTAL	**589.7**	**523.2**	**66.5**	**493.6**	**440.3**	**53.3**

Recognition differences between adjusted and reported results

Cost type	Category in the statement of profit or loss	Category in the charging statement[3]	Difference in recognition
Key suppliers	Cost of sales and finance costs (costs incurred with key suppliers for mandated programmes, including SMETS2, SMETS1, and Switching)	External costs and Communications hub fixed revenue	Adjusted costs are amounts invoiced/due to be invoiced in the year by suppliers in relation to work completed in the year or in previous years, in accordance with the invoicing profile in their contracts. Statutory costs represent the value of work completed by suppliers in the year which may have been invoiced/ is due to be invoiced in the year or future years.
Other suppliers	Cost of sales (costs incurred with other suppliers providing direct services in relation to the mandated programmes, e.g. Smart Metering Key Infrastructure and Parse and Correlate services, and costs incurred by SECCo Ltd and Alt HAN Co.)	Internal costs and pass-through costs	Adjusted costs are amounts invoiced/due to be invoiced in the year by suppliers in relation to work completed in the year or in previous years, in accordance with the invoicing profile in their contracts. Statutory costs represent the value of work completed by suppliers in the year which may have been invoiced/is due to be invoiced in the year or future years.
Administrative costs	Administrative expenses, depreciation and other finance costs not related to key suppliers	Internal costs, baseline margin, external contract gain share, disallowed costs	Adjusted costs reflect the margin and external contract gain share that are recovered from customers in the year as determined by Ofgem in the price control decision. Statutory costs show these costs on an accruals basis and may be chargeable to customers in a future year. Adjusted costs include asset related expenditure as incurred. These costs are capitalized on the statement of financial position in line with IAS 16 and IFRS 16, and depreciation and interest are recognised in the statement of profit or loss.

3 As defined in the Licence

Price Control assessment for year ended March 2022

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

The assessment is carried out after the regulatory year has ended and the final determination is published in the subsequent February. Therefore, any financial impact of the decision is first reflected in the results of the following regulatory year. For the year ended March 2022 these were the conclusions published in February 2023:

- £0.7m of external costs were assessed to be unacceptable under the Licence. This will be returned to customers through charges in 2023.
- £6.8m of internal costs incurred were assessed to be unacceptable under the Licence. This will be returned to customers through charges in 2023.
- A £1.4m reduction in baseline margin was determined due to performance under the Operational Performance Regime.
- A £7.4m adjustment to baseline margin was awarded for work carried out to date and due to be carried out in 2023 in relation to increased scope in business activities.
- A £11.9m adjustment to the external contract gain share to reflect the Company's share of cost savings achieved through refinancing activity.

The net financial impact of the price control assessment is what the Company and the shareholder consider to be the margin earned from the smart metering contract. This margin impact in relation to 2023 is presented in administrative expenses in the reported results of the Company. £16.5m (2022: £23.6m) has been included in administrative expenses this year.

Liquidity and financial stability

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

A key priority is to ensure that charges to customers are set at an appropriate level to ensure adequate cash levels are maintained throughout the year and to minimise the risk of having to re-open a charging statement. The closing trading cash balance was £87.7m (2022: £105.8m). The decreased cash balance from prior year is partly due to timing of spend and £50.0m of this balance was returned to customers through a reduction in customer charges from December 2022 to April 2023.

The Company also has access to financial support, if required, through arrangements in place with the parent company up to a total value of £15.0m (2022: £15.0m).

We have seen only a small number of energy suppliers go out of business this year, which is a positive sign compared to prior year where we saw an unprecedented number of energy suppliers go out of business. Irrespective of both the volume and value of unpaid invoices we continue to have access to credit support provided by customers in accordance with the SEC, which can be drawn upon if a customer fails to pay their invoice. After applying credit cover the remaining debt balance at the end of 2022/23 was £0.3m. This was recovered from excess cash receipts in the year, before returning funds to customers for over-recovery of charges compared to spend.

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

On 31 March 2023 the Company held £24.6m (2022: £23.5m) in cash deposits. Cash deposits, together with bank letters of credit and affiliate guarantees, give cover for approximately 89% of one month's total charges to customers.

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2023, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 March 2025, as well as considering several plausible downside scenarios. The Board's assessment is set out in more detail in note 2 to the financial statements.

Non-financial reporting

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

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

The Directors consider that they, both individually and collectively, have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) S172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2023 including:

a) **The long term:**

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

b) **Workforce and employee engagement:**

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

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

For further details on the Board's approach to monitoring and assessing company culture please refer to page 60.

For further details on the Board's employee engagement please refer to page 60.

For further information on 'Our People' including employee engagement and satisfaction as well as employee networks and groups, please refer to page 29.

c) **Business relationships with:**

a. Suppliers:

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

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

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

iii. During the pandemic and more recently the wider economic downturn we continued to focus, among others, on ensuring that we meet our prompt payment target to support suppliers cashflow.

b. Customers:

i. Forms of engagement: Customer engagement remains an ongoing key focus area. During the year, there has been significant engagement with customers via webinars and workshops that have provided us with valuable insights, knowledge, and views about the key issues facing our customers. This is explained in more detail on page 18.

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

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

c. BEIS/Ofgem/SEC Panel:

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

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

d. Shareholder:

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

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

For further details on Board engagement with the shareholder, please refer to page 41.

d) **Impact on the community and environment:**

The Board is committed to the Company's 'Smart Green' agenda and has set the target for the Company to reduce its absolute, measurable, carbon load on the environment. Please refer to page 18 for further information on Smart Green initiatives in the year and the Company's carbon usage.

e) **High standards of business conduct:**

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

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

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

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

d. Commitment to ensure suppliers are paid promptly, with a KPI target of at least 97% of all suppliers to be paid within 30 days.

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

Viability statement

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

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

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

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

The Business and Development Plan considers the progress of programme delivery and roll-out of the service. The annual Charging Statement and budget process requires the Company to review its ongoing activities and future plans, supported by a monthly review of internal activities and ongoing review of key supplier activities. These are the basis for the charges to be recovered from customers and underpin the base-case cost projections prepared for both the going concern and viability assessments.

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

The Directors confirm that they have conducted a robust assessment of the emerging and principal risks facing the Company as set out in the principal risks and uncertainties section on page 39. Based on this assessment, and providing that the Company can satisfy Ofgem that its costs have been incurred economically and efficiently, and that the Smart Metering Programme is not cancelled, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2025.

5. Governance

5. Governance

Chairman's introduction

The Directors recognise the responsibility for the proper management of the Company, achieving a high standard of corporate governance, and engaging with our stakeholders. A robust governance framework is essential in underpinning the delivery of our objectives and promoting long-term, sustainable success and this way, our governance framework supports our vision of making Britain more connected, so we can all lead smarter, greener lives. Below, we describe the role of the Board, how the Board has met its responsibilities and how we apply the principles of the FRC's UK Corporate Governance Code 2018 in practice, as DCC continues to evolve and mature as a business.

Role of the Board

The Board's role is to provide leadership to the business, having overall responsibility for the Company's strategy, performance, the framework for risk management and internal controls, governance matters and engagement with stakeholders. The Board remains committed to understanding the needs of our stakeholders and on page 49, in our Section 172 statement we explain how we engage with them. The Board's full responsibilities are set out in a formal schedule of matters reserved for its decision.

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

The Board

At the end of March 2023, the Board had seven Directors: The Chairman (also a Non-Executive Director); two Executive Directors, the CEO and the CFO; a Non-Executive Director; and three Sufficiently Independent Non-Executive Directors. During the year two directors, Patrick Elliott and Phillip Male resigned and two new directors, Sarah Eccleston and Richard Holroyd were appointed. Upon Phillip Male's resignation Ian McCaig was appointed Senior Independent Director.

Board independence

Non-Executive Directors are required to be independent in character and judgement, so that they can exercise independent oversight and effectively challenge management. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy. With the exception of Richard McCarthy and Richard Holroyd, who are employees at the shareholder, all other Non-Executive Directors have been determined to be independent. The Directors of the Company currently in office are listed on page 62.

Board leadership

Board members

Richard McCarthy
(Chairman, Chair of the Remuneration and Peoples Committee and Chair of the Nomination Committee)
Appointed: October 2013

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

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

Angus Flett
(Chief Executive Officer)
Appointed: February 2017

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

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

Jason Clark
(Chief Financial Officer)
Appointed: February 2021

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

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

Philip Male
(Senior Independent Director)
Appointed: September 2013
Resigned: September 2022

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

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

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

Key skills:
Barbara is an experienced Non-Executive Director who has worked extensively with SMEs, PLCs in regulated sectors, international private companies and venture capital specialists. She brings her deep expertise in innovation for growth and sustainability, strategic planning, start-up acceleration and business transformation and project delivery to the Board. Her experience and work was recognised in April 2023 when she won the Sunday Times Non Executive Director for Private Equity and Private Companies Award.

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

Ian McCaig
(Senior Independent Non-Executive Director) – from: September 2022
Appointed: April 2021

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

Experience:
Ian is Board member and Chair of the Operating Committee at M-Kopa Ltd, Director for The Leys and St Faith's Schools Foundation, Chair of Lumon Holding Ltd and on the Board of two of its subsidiaries, andBoard Member at Wesleyan Assurance. In his executive career, he was most recently CEO of First Utility, the largest independent energy provider in the UK and a pioneer in smart-metering technology and energy analytics, which was acquired by Shell at the end of 2017. Prior to that, he was CEO of lastminute.com. His early career was in the IT industry at ICL before moving into telecommunications and spending a number of years at Nokia.

Patrick Elliott
(Non-executive Director)
Appointed: December 2019
Resigned: December 2022

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

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

Sarah Eccleston
(Non-executive Director and Chair of the Technology and Advisory Committee)

Key skills:
Sarah has extensive experience and skills at a senior level in networks, digital and software management, with a successful track record on delivering commercial success

Experience:
Sarah joined the DCC Board in September 2022 in her first Non-Executive role after a 30-year career in IT Networking. Sarah has since been appointed as a Non-Executive Director for Telia Company. In her executive career Sarah most recently, was a Global Vice President for Cisco. Originally a software engineer, Sarah has wide-ranging experience in the industry, gained in a variety of engineering, sales, and leadership positions with global technology vendors and service providers including Nortel Networks and Verizon. At Cisco, Sarah led the Internet of Things (IOT) and Networking practices for UK and Ireland; for Cisco globally, she was Chief Technology Officer for the Small and Mid-Size business sectors.

Richard Holroyd
(Non-Executive Director)

Key skills:
Richard is an experienced leader across various sectors, from security to telecoms to energy, including smart metering. Richard has a strong track record, through all his business roles, of being customer and consumer focused.

Experience:
Richard is Managing Director and Client Partner of the Defence, Fire and Security Sector at Capita, one of the largest strategic suppliers to the UK MOD. Earlier, Richard spent 20 years in the Army before joining BT and playing a key role in network transformation, customer experience and new product launches. He later joined the Executive Leadership team of Centrica's Consumer Division, leading its transformation into a customer-centric digital business and delivery of the smart meter programme.

UK Corporate Governance Code

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

Provision 5: ***The board should keep engagement mechanisms under review so that they remain effective. For engagement with the workforce, one or a combination of the following methods should be used:***

- *a director appointed from the workforce;*
- *a formal workforce advisory panel;*
- *a designated non-executive director (DNED).*

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

For the year reporting on, the Company was not compliant as it had not implemented one of the three methods. However as of May 2023 Sarah Eccleston has been appointed as the DNED.

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

The Chair was appointed on incorporation of the Company and is a senior employee of the Company's shareholder, Capita plc. The majority of NEDs are independent. Board appointments are conducted in accordance with both, Capita's policy and DCC Licence conditions.Provision 18: All Directors should be subject to annual re-election.

The Board should set out in the papers accompanying the resolutions to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.

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

Provision 19: ***The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.***

Whilst the Chair has now served on the Board for more than nine years, the Board has agreed that his continued appointment remains in the best interests of the Company. The Board's membership has been refreshed during the year, and the Board believes that its composition benefits from both, Directors with longer corporate memory, and challenge provided by fresh thinking. The Chair's longer tenure, his expertise and [deep] understanding of the business and the complex environment in which it operates is considered desirable in the context of the Company's longer-term strategy

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

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

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

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

Provision 36: *Remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. Share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more. The remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.*

Due to the nature of DCC's shareholding this provision can not be implemented and there are no share awards.

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

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

Governance and strategy

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

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

The Board's full responsibilities are set out in the schedule of Matters Reserved for the Board in our Board and Governance Manual, and certain responsibilities are delegated to the Board Committees, to help the Board operate effectively and give an appropriate level of attention and consideration to pertinent matters. Our Board and Governance Manual and committee Terms of Reference can be found on DCC's website. We explain how the Directors discharged their duties under Section 172 on page 49. Board policies, which help to codify its processes, are reviewed and, if needed, periodically updated, with the support and guidance of a Company Secretary.

Company secretary services are provided to the Board by Link Company Matters Limited and Capita Group Secretary Limited and all directors and executives have access to the company secretary service providers.

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

The Board

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

Matters reserved for the Board

Strategy and management

Financial reporting

Internal controls

Significant contract approvals

Shareholder communication

Board membership and succession planning

Audit and Risk Committee

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

Remuneration and People Committee

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

Nomination Committee

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

Technology Committee

- Medium to long term technology planning
- Alignment between technology capability, business strategy and user requirements

Division of responsibilities

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

DCC Public

Culture and employee engagement

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

All people related matters are discussed by the Board on regular basis and our Chief People Officer frequently presents at Board and Remuneration and People Committee meetings, providing updates and inviting discussion on matters such as attracting and retaining talent, employee satisfaction, remuneration policy, incentive schemes, as well as any other matters raised through the People Forum. More information on our people initiatives can be found on page 28.

Directors discuss the results of the annual People Survey results, which provide valuable insights into how well the culture is embedded across the organisation and, importantly, key areas of focus for development. More information on our culture transformation programme can be found on page 30.

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

Diversity and inclusion

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

We are supportive of the ambitions expressed in reviews on diversity, including the most recent updates on the FTSE Women Leaders Review 2023, and the Parker Review 2023. Female representation on the Board is currently 28%, an increase from 14.3% in the previous year and we will continue to examine ways in which we can increase female representation on the Board going forward. Although we are not a listed company, we are also supportive of the targets of the Parker Review for companies to have at least one Director from an ethnic minority background by 2024.

The Nomination Committee ensures that new Board appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and leadership for the Company. The Nomination Committee Report on page 63 includes more details on this.

Supported by the Remuneration and People Committee, the Board also monitors progress against the plan for diversity and inclusion across the organisation and ensures the appropriate sponsorship from Senior Management is in place. Please refer to page 30 for more information on our commitment to diversity and inclusion in the wider workforce.

Shareholder engagement

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

Evaluation of Board Performance

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

The evaluation undertaken in 2022 was an independent and external evaluation facilitated by Socia Limited and took the form of detailed interviews, Board observations, and Board discussion.

The previous external review was conducted in 2019 and the objectives of this year's review were to assess the Board's progress since the last externally facilitated review, provide an opportunity for the Board to reflect on its current performance and identify improvements and provide confidence to the DCC Board's stakeholders that the current Board operation and governance meets best practice using the Code as a benchmark.

The overall review was positive and it was noted the Board takes its responsibilities seriously and operates in a professional manner, compliant with the principles of the Corporate Governance Code 2018. The reports notes the Board has demonstrated good progress maturing its operations since the last review in 2019. In the report Eight recommendations were made across the following four key areas:

1. Develop the Board's plans for Licence Renewal
2. Focus on principal/enterprise risks: following discussions on Licence Renewal dedicate more time to
3. Raise the Board's profile and engage stakeholders
4. Continue to develop the governance system

The Board has reviewed the recommendations and discussed the possible actions at a strategy day and agreed a number of actions to implement over the following year, including:

1. Develop the Board's plan for Licence Renewal, including:
   a. agreeing on strategic plans and associated risks, and set out how the Board would monitor that;
   b. address any conflicts of interest and agree with Capita the extent of the independence of the Board regarding the approach to licence renewal; and
   c. agree the future tenure of all NEDs and have a clear executive succession plan.
2. Review and monitor principal/enterprise risks. Board has agreed to dedicate more time to deep dives on principal and enterprise risks.
3. Raise the Board's profile and engage stakeholders, including by:
   a. the Board taking a proactive approach to stakeholder management that would include requesting that the CEO bring forward the previously requested Stakeholder Plan for approval; and
   b. raising the Board's profile with DCC staff. The Board has agreed to appoint Ms Eccleston as the Designated Non-Executive Director to liaise with the workforce and bring its voice to the Board.
4. Continue to develop the governance system, by:
   a. clarifying the roles and accountabilities of the Capita-appointed NEDs and ensuring the Terms of Reference for the TAC were confirmed; and
   b. enhancing the performance of the secretariat through clear direction on the Board's requirements to the secretary and the appointment of a General Counsel.

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

The actions arising from last year's Board evaluation were also reflected on and implemented during the year and an update on the progress is included below:

Actions arising from the previous Board evaluation	Actions we have taken
• Continued focus on the strategic priorities and dedicated sufficient time at the Board meetings to matters of strategic importance;	The Board has committed to regular dedicated half day meetings to focus on strategy. These are held twice annually. Additionally, Board agendas are structured to routinely allow for discussion of matters of strategic importance.
• Continued focus on people and culture, refining ways culture is measured and captured so it can be better understood and shaped;	The Remuneration and People Committee specifically focuses on the workforce and culture, meeting three times a year. People and Culture engagement is regularly measured and discussed at both the Remuneration & People Committee and at Board meetings.
• Evolving the reporting, with particular emphasis on focusing the papers and re-considering the agendas for trading update meetings;	Reporting has evolved so that the Board receives a report from the CEO outlining his key messages and view of risk as well as a business performance report on Programmes, Operations, People matters and Finance at every meeting, including Trading Update. These are considered well balanced and provide the right level of detail on performance of the business.
• Where possible, allowing more time for debate to further improve the focus on critical issues; and	Where a fuller debate is not possible, these issues will be brought back to subsequent meetings. The work of the Committees of the Board has also helped improve debate and focus at Board meetings.
• Further refine balancing the amount of time spent on operational delivery, strategic goals and the details of programme delivery	The evolved reporting outlined above has better balanced the amount of time spent between operational delivery and matters of strategic importance.

Board meeting and attendance

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

Director	Position	Board	Nomination Committee	Audit and Risk Committee	Remuneration and People Committee	Technology and Advisory Committee (Established November 2022)
Richard McCarthy CBE	Chairman	6(6)	2(2)	n/a	3(3)	
Angus Flett	CEO	6(6)	n/a	n/a	n/a	3(3)
Jason Clark	CFO	6(6)	n/a	n/a	n/a	
Barbara Anderson	Independent NED	6(6)	2 2)	3(3)	3(3)	
Patrick Elliot (Resigned December 2022)	NED	4(4)	2(2)	n/a	1(1)	
Phillip Male (Resigned September 2022)	Senior Independent Director	3(3)	1(1))	1(1)	2(2)	
Ian McCaig	Senior Independent Director	6(6)	2(2)	3(3)	3(3)	
Richard Holroyd (Appointed December 2022)	NED	2(2)	1(1)		2(2)	
Sarah Eccleston (Appointed September 2022)	Independent NED	3(3)	1(1)		2(2)	3(3)

During the year, the Board also met twice for trading update meetings and twice for Board strategy meeting.

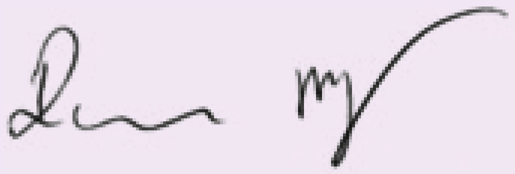
The Board generally meets formally at least six to seven times a year and in 2022 we continued to adapt the ways in which we meet, holding virtual and hybrid meetings but with an increased focus on in person meetings. The Board's annual corporate calendar helps us plan meeting agendas, ensuring that all responsibilities and duties of the Board and its committees are discharged during the year, and allows flexibility for updates and debates on any pertinent matters that arise throughout the year.

Management of conflicts of interest

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

Directors' indemnities

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



Richard McCarthy CBE
Chairman Smart DCC
27 July 2023

Nomination Committee report

Members	
Richard McCarthy	Sarah Eccleston (appointed September 2022)
Barbara Anderson	Richard Holroyd (appointed December 2022)
Ian McCaig	Patrick Elliott (resigned December 2022)

Purpose

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

Membership and Attendance

All Non-Executive Directors are members of the Committee and the CEO and other members of Management are regularly invited to attend meetings to provide a comprehensive updates and insight into any key issues and developments. Details of attendance by Board members are disclosed on page 62.

Committee activity

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

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

Talent management and succession

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

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

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

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

New appointments

Phillip Male, the Company's Senior Independent Director (SID), retired from the Board in September 2022. The Committee identified the skills and experience required to complement the Board's existing skill set, in the context of challenges and opportunities facing the Company. With the DCC's skills and diversity matrix in mind, the Committee agreed on a description of a role, and identified the key needed skills and experience, and Korn Ferry, an external search agency, was engaged to assist with the recruitment of the new Sufficiently Independent Director. Following an extensive recruitment process Sarah Eccleston was identified as the right candidate for the position and was appointed in September 2022.

During the year the Nomination Committee oversaw the resignation of Patrick Elliott and the appointment of Richard Holroyd as the new Non-Independent Non-Executive Director on behalf of the shareholder.

Induction, training and development

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

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

Audit and Risk Committee report

Members	
Barbara Anderson	Liz Brownell (resigned March 2023)
Ian McCaig	Gemma Bate-Williams (appointed June 2023)
Philip Male (resigned September 2022)	

Chair introduction

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

The Committee has also continued to oversee the key financial processes and policy updates as well as review the principal risks to the business against the risk appetite limits set by the Board. In 2022 the Committee decided to tender the external audit services and has invited tenders from audit firms, including challenger firms with the intention of recommending an appointment of a new external auditor for the audit of the following financial year ending 31 March 2024.

Committee membership and attendance

All members of the Committee, except Liz Brownell and Gemma Bate-Williams are sufficiently independent Non-Executive Directors. Ms Brownell and Ms Bate-Williams are co-opted member of the Committee, appointed by Capita Group.

Ms Brownell is a UK Chartered Accountant qualified with Deloitte before moving to Capita in 2012. Ms Brownell is also an independent member of the University of Derby Audit and Risk Committee. Ms Brownell is considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

Ms Bate-Williams is a UK Certified Chartered Accountant and is a Divisional Finance Director at Capita where she qualified and has held various Finance roles since joining as a Graduate in 2001. For the purposes of the UK Corporate Governance Code, Ms Bate-Williams is considered to have recent and relevant financial experience.

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

The Board is satisfied that the combined knowledge and experience of the Committee's members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has competence relevant to the sector in which the Company operates. The ARC reviewed its effectiveness as part of a broader review of all Board Committee's effectiveness facilitated by the Company Secretary. The Board was satisfied the ARC is performing effectively and its composition remains appropriate. More information on the Board evaluation, which included the Committee's performance can be found on page 54.

How the Committee operates

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

During the year under review, the Committee met three times.

Role and responsibilities

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

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

Activities during the year

Financial reporting

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

Existence and accuracy of costs		
Matter considered	**Action**	**Outcome**
The amount of costs recognised in the period and whether they are permitted to be recharged to service users directly determines the amount of revenue recognised in the statement of profit or loss. Therefore, there is a risk that if costs are not accurately recorded, revenue would be misstated.	Members of the Committee receive regular updates from the CFO on costs incurred throughout the year as part of management information presented to the Board. The Committee reviews a reconciliation of costs in the financial statements to this management information.	The Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue and cost recognition.
Management override of controls		
Matter considered	**Action**	**Outcome**
Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Members of the committee receive regular updates from the CFO on financial performance throughout the year as well as updates on financial control processes via the Business Accuracy Programme process mapping project. The CFO has approved the controls framework that underpins the production of the financial statements and KPMG have conducted substantive testing of those procedures and findings have identified no specific additional risks of management override relating to the audit	The committee is satisfied that controls have been adhered to ensure accounting records have been prepared in good faith and represent a true and fair view of the company financial position and that the controls underpinning those numbers have been carried out by professionally qualified people with sufficient independence and segregation of duty controls in place.

Fair, balanced and understandable

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

Materiality

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

External auditor

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

Auditor independence

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

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

Non-audit services and fees

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

Disclosure of information to the auditor

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

External auditor performance

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

External auditor tender and re-appointment

The DCC's audit services have not yet been subject to tender since the company's inception in 2013. The performance of the auditor was reviewed at the Committee meeting on 14 June 2021, when the Committee considered the performance of the auditor to be satisfactory and recommended to the Board that the auditor be re-appointed for the year ending 31 March 2022. Considering the current auditor's tenure, and best practice recommendations to undertake a tender at least every ten years, the Committee decided to put the audit out to tender. However, the process has been slower than anticipated. Audit firms including challenger firms have been invited to submit a tender and the Committee expect to make a recommendation to the Board to appoint a new auditor for the year ending 31 March 2024.

Internal control and risk management

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

The 2023/2024 internal audit plan, approved by the Committee in November 2022, includes risk-based audits that have been identified through reviewing DCC's Enterprise and Functional Risk registers as well as review and discussion with the Senior Management Team. Policy-based audit topics have been included based on the ARC-approved policy for audit schedule.

The 2023/2024 audit schedule includes on it review of the GDPR controls and compliance in relation to the DCC's role as a Data Controller under the REC (Switching), review of the Contract expiry and renewals process, review of SMETS Service Provider compliance with DCC SEC regulatory obligations, review of the effectiveness of the Lock process in facilitating Business forecasting accuracy both financially and from a resourcing perspective, review of DCC Fraud Controls, , review of governance and effectiveness of Supplier Relationship Management, review of plans and progress in relation to 2G/3G sunsetting.

The effectiveness of the internal control framework and the risk management system was reviewed in March 2023. The Committee has assured the quality, experience and expertise of the internal control and risk management function through review of the papers presented to both the Committee and Board and through regular meetings between the Chair and the Senior Management Team. Regular reporting to the Committee during the year included:

Outcomes of planned controls and compliance monitoring activity, including an independent Compliance Officer Work Plan;

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

Barbara Anderson
Chair Audit and Risk Committee
27 July 2023

Remuneration and People Committee report

Members	
Richard McCarthy	Sarah Ecclestone (appointed September 2022)
Barbara Anderson	Richard Holroyd (appointed December 2022)
Ian McCaig	

Annual Statement

I am pleased to present the Remuneration and People Committee report for the year ended 31 March 2023. Last year the role and objectives of the Committee was expanded beyond simply remuneration, and now includes governance, strategy and policies generally relating to employee matters. Consequently, the Committee's Terms of Reference have been updated and are available along with all other Terms of Reference on DCC's website www.smartdcc.co.uk. We also continue to have the responsibility for determining and approving the remuneration policy for all Directors, senior managers and to review, at least annually, the pay and bonuses awarded to the wider workforce. When determining the Company's remuneration policy and incentive schemes, the Committee considers a range of factors including the economic conditions, guidance received from governing bodies and the feedback and views from our shareholder and stakeholders.

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

- The review of the remuneration policy for Executive Directors and members of the Executive Committee for 2023;
- The review of the Executive performance and annual pay award recommendations;
- Review of 2022/2023 corporate objectives outturns and bonus awards;
- Review of 2023/2024 corporate objectives;
- Reviewing the people priorities and the culture programme, advising on corporate culture and values, developing the Company's leadership capabilities, and reviewing the Pay and Promotions Policy; and
- Approval of annual payments for 2023 under the annual bonus scheme and pay award effective from 1 April 2022.

How the Remuneration and People Committee operates

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

The Committee is required to meet at least twice a year and otherwise as required. The number of formal meetings held throughout the year and attendance by each Board meeting is shown on page 69. The work of the Committee is planned with reference to an annual agenda to ensure that the key policies and incentive schemes are regularly reviewed and that the Committee operates effectively. In addition, the Chair, CFO, CEO and CPO meet prior to any meeting to identify any issues related to remuneration or the people agenda that may require consideration by the Committee. At each meeting the members receive reports and presentations covering wider workforce arrangements which include the annual pay and bonus review, future incentive schemes, and ensuring pay equality.

Remuneration and People Committee discretion

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

Remuneration policy

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

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

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

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

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

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

Summary Executive Director remuneration policy table

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

Base salary

Purpose and link to strategy	Operation	Maximum levels of payment	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive and appropriately benchmarked.	Normally reviewed annually in March with any changes usually effective in April. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: • Comparable salaries in the market • Economic climate • Company performance • The role and responsibility of the individual Director • Employee remuneration across the broader workforce	There is no prescribed maximum monetary annual increase to base salaries, but an increase is normally in line with inflation. A higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstance. Any annual increase in salaries is at the discretion of the Committee.	Pay award from April 2022 is inflationary and is not performance related.

Benefits

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

Pension

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

Annual performance bonus scheme

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

Non-Executive Director fees

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

Annual bonus scheme 2022/23

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

The corporate objectives are set at the beginning of the financial year by the Board. Performance against them is assessed by the Committee and achievement as at end of March 2023 was agreed at 87%, detailed in the table below:

Objective area	Corporate objective	Weighting and Target performance	Final performance
Delivering Core Programmes	Deliver the agreed set of programmes within dates agreed in programme plans and within budgets set.	50%	46.3%
Business Capability	Deliver security training to staff and reduce phishing attempts, improve business accuracy and overall governance, and increase customer satisfaction.	15%	12.5%
Stakeholders	Deliver expected margin returns to the shareholder and minimise disallowed costs from the OFGEM price control review and improve customer and contract management.	25%	17.4%
People	Ensure the DCC is a rewarding place to work, leading to increased levels of employee engagement and satisfaction.	10%	12.5%
		100%	**88.7%**

Executive Directors' service agreements

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

Non-Executive Directors' terms of engagement

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

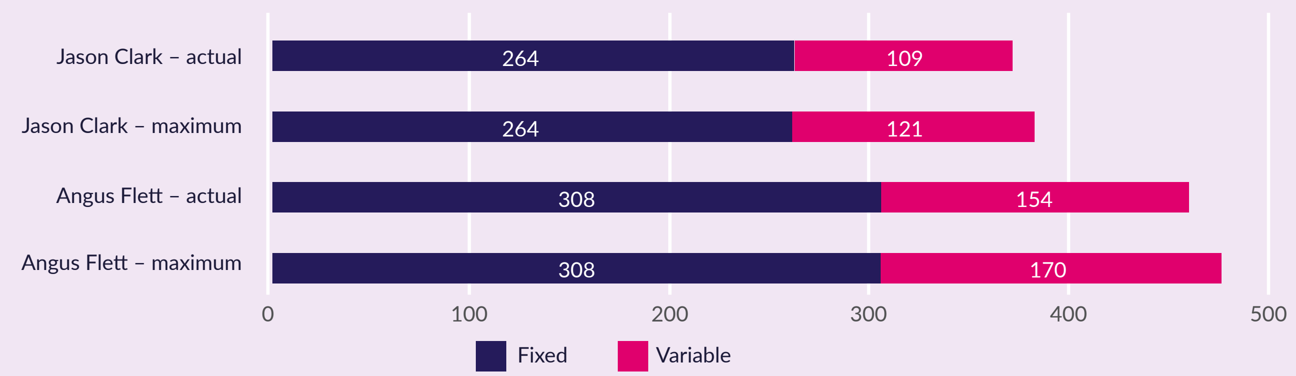
Directors' remuneration earned in 2022/23 – single-figure table

	Salary & Fees[6] (£)		Taxable benefits[7] (£)		Annual bonus (£)		Shares[9] (£)		Pension related benefits (£)		Total (£)	
	2023	2022	2023	2022	2023	2022	2023	2022[10]	2023	2022	2023	2022
Angus Flett	275,000	251,534	19,327	18,438	153,813	123,214			13,750	12,577	461,890	405,762
Barbara Anderson	50,000	47,010	958	484		–				–	50,958	47,494
Jason Clark[6]	234,225	225,000	18,122	17,737	109,172	106,628			11,711	11,250	373,231	360,615
Patrick Elliott[7]		45,835		–	–	–				–		45,835
Philip Male	22,159	50,000	228	507	–	–			–	–	22,387	50,507
Ian McCaig	50,000	50,000	503	507							50,503	50,507
Richard McCarthy[8]	141,983	66,443		–	–	–			–	–	141,983	66,443
Richard Holroyd	21,095										21,095	
Sarah Eccleston	33,333		554								33,887	
	885,404	**735,822**	**39,693**	**37,673**	**262,985**	**229,842**	**–**	**–**	**25,461**	**23,827**	**1,213,543**	**1,027,163**

Total remuneration for the highest paid Director is 4.1 times (2022: 4.3 times) the average total remuneration of all employees.

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

Executive Directors' Remuneration (£'000s)



Richard McCarthy CBE
Chair Remuneration and People Committee
27 July 2023

Technology Advisory Committee report

Members	
Sarah Eccleston	Mark Hughes (Chief Information Security Officer)
Angus Flett	Michael Hewitt (Chief Technology Officer)
Phillip Male (External Subject Matter Expert)	

Purpose

The Technology Advisory Committee is responsible for ensuring the DCC's long-term technology planning supports the DCC in achieving it's mandate in line with mid and long term strategy, while making use of the most suitable, agile and commercially appropriate technology.

The Committee reviews medium and long-term technology strategy for the effective use of technology and information across the DCC Network. The primary purpose of the Committee is to ensure there is a clear medium and long-term vision for technology adoption and alignment between technology capability, business strategy and user requirements.

Decisions and recommendations from this advisory committee are clearly communicated to the Board.

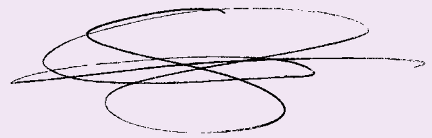
Membership and Attendance

There are two directors on the Committee, Sarah Eccleston who is the independent NED chair and Angus Flett. In addition, there are three internal and external technology experts who sit on the Committee and other members of Management and matter specific experts are regularly invited to attend meetings to provide a comprehensive updates and insight into any key issues and developments. Details of attendance by Board members are disclosed on page 62.

Committee activity

The Committee was established in November 2022 and met three times in the reporting year. The Committee activity is driven by business activity but following its establishment a schedule of agenda items was established to ensure that all matters required to be considered by the Committee were given due consideration and are reviewed at appropriate intervals.

The focus of the Committee to date had been to develop the DCC's technology environment to ensure that it continued to meet the needs of the business. The Committee has considered long range strategic technology planning, network security and the Data Service Provider.



Sarah Eccleston
Chair Technology Advisory Committee
27 July 2023

4 Inclusive of PAYE.
5 Taxable benefits are composed of car allowance and optional benefits selected by the employee. Examples of available benefits are private healthcare and critical illness cover.
6 Jason Clark commenced his role as CFO on 1st February 2021.
7 This value represents the allocation of Patrick Elliot's cost in relation to time worked on DCC related activities.
8 This value represents the allocation of Richard McCarthy's cost in relation to time worked on DCC related activities.
9 This represents the value included in the share award on an accounting basis and is included in the Key Management personnel note on page 90. Angus Flett was granted Capita plc shares from 2016 to 2019 and holds 5,041 shares as at 31st March 2023.
10 During the period it was identified that the amount included for shares in 2022 for £26,476 was related to periods prior to 2021.

DCC Public

Directors' responsibility statement

The directors are responsible for preparing the Annual Report and the Company Regulatory Financial Statements in accordance with applicable law and regulations.

The directors are required to prepare the Regulatory Financial Statements in compliance with Condition 30 of the Company's Regulatory Licence.

In preparing the Regulatory Company Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards as modified by Condition 30 of the Company's Regulatory Licence;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

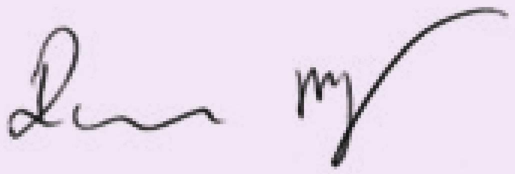
The directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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

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

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

On behalf of the Board,



Richard McCarthy CBE
Chairman Smart DCC
27 July 2023

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

1. Our opinion is unmodified

We have audited the Regulatory Financial Statements of Smart DCC Limited ("the Company") for the year ended 31 March 2023 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and the related notes, including the accounting policies in note 2. The financial reporting framework that has been applied in their preparation is Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2023 have been properly prepared, in all material respects, in accordance with Condition 30 of the Company's Regulatory Licence and the accounting policies set out therein.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 16 June 2023 and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF (Revised) 'Reporting to regulators on regulatory accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

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

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

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

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

These matters were addressed in the context of our audit of the Regulatory Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2022):

KAM	The risk	Our response
Existence and Accuracy of Costs relating to Milestones £27.5m (2022: £38.9m)	The Company is required to operate in accordance with the terms of the Smart Meter Communication Licence (the Licence) which permits it to recharge certain costs to Service users (customers). Service users are the organisations who will be given permission to interface with the communication hubs and access data available through smart meters. The amount of total costs recognised in the Regulatory Financial Statements for the year and whether they are permitted to be recharged under the terms of the Licence directly determines the amount of revenue recognised in the Regulatory Financial Statements. As such there is a risk that if costs are not accurately recorded within the Regulatory Financial Statements, revenue would also be misstated. Certain costs incurred by the company are charged by Service Providers, who are companies contracted to provide services to the Company, based on the achievement of milestones. The Company recognises these costs based on its estimate of the stage of completion of each milestone. There is a risk that recognition of costs (and therefore revenue) does not represent the actual stage of completion leading to an understatement or overstatement of costs.	**Our procedures included:** **Control testing** • We obtained an understanding of the process over expense recognition and recording in the Regulatory Financial Statements. • We tested the design and implementation of relevant controls. **Tests of detail** • For a sample of costs incurred in the year, we agreed the costs to supporting documentation, such as signed Payment Milestone Certificate and/or invoices, in order to establish whether the amounts were accurately recorded. • Where costs are charged by the Service Providers and recognised by the Company based on the status of the milestones achievement at year end, we assessed the reasonableness of the estimate of costs incurred for a sample of such milestones by obtaining third party confirmations and agreeing the level of completion of the milestone and related cost recorded in the accounting period to those third party confirmations.

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

Materiality for the Company's Regulatory Financial Statements as a whole was set at £13.5m (2022: £9.0m), determined with reference to a benchmark of total revenue (of which it represents 2.35% (2022: 2.1%)). We consider total revenue to be the most appropriate benchmark rather than profit-based benchmarks as the Company is not set up to generate a profit.

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

Performance materiality was set at 85% (2022: 75%) of materiality for the Regulatory Financial Statements as a whole, which equates to £11.4m (2022: £6.75m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected uncorrected identified misstatements in the Regulatory Financial Statements as a whole exceeding £0.675m (2022: £0.45m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

The scope of the audit work performed was predominately substantive as we did not rely upon the Company's internal control over financial reporting.

4. Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

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

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

- Threat to the Company delivering expected business performance.

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

Our procedures also included:

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

- Inspecting the finance agreement to assess the restrictions on the use of funds and comparing these restrictions to management's model; and

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

Our conclusions based on this work:

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

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

- we have nothing material to add or draw attention to in relation to the directors' statement in note 64 to the Regulatory Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

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

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

We did not identify any additional fraud risks.

We also performed procedures including:

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

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

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

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

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

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

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

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

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

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

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

DCC Public

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

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

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

Disclosures of emerging and principal risks and longer-term viability

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

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

- the directors' confirmation within the Viability Statement (page 39) that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the [Principal risks and uncertainties] disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the [Viability Statement] of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

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

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

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

In addition to our audit of the Regulatory Financial Statements, the directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. We have nothing to report in this respect.

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

Under the terms of our engagement, we are required to report to you if, in our opinionn:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Regulatory Financial Statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 64 the directors are responsible for: the preparation of the Regulatory Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

- Identify and assess the risks of material misstatement of the Company's Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are in adequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

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

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

DCC Public

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

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

Our opinion on the Regulatory Financial Statements is separate from our opinion on the Statutory Financial Statements of the Company for the year ended 31 March 2023 on which we reported on 18th July 2023, which are prepared for a different purpose. Our audit report in relation to the Statutory Financial Statements of the Company (our "Statutory audit") was made solely to the Company members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our Statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and, the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our Statutory audit work, for any Statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

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

Chartered Accountants
15 Canada Square
London
E14 5GL

31 July 2023

7. Financial Statements

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Revenue	3	517,108	432,794
Cost of sales	5	(358,380)	(304,371
Gross Profit		**158,728**	**128,423**
Administrative expenses	6	(156,617)	(126,250)
Operating profit		**2,111**	**2,173**
Interest received	**9**	**223**	**–**
Depreciation	12	(1,774)	(1,777)
Finance income	9	5,882	7,554
Finance costs	9	(6,442)	(7,950)
Profit before taxation		**–**	**–**
Tax	10		–
Result for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year attributable to the owners of the Company		**–**	**–**

The notes on pages 91 to 108 form an integral part of the financial statements.

Statement of financial position as at 31 March 2023

	Notes	2023 £'000	2022 £'000
Assets			
Non-current assets			
Unbilled revenue due in more than one year	11	417,919	422,525
Property, plant and equipment	12	4,899	6,673
Total non-current assets		**422,818**	**429,198**
Current assets			
Trade and other receivables	13	194,945	132,487
Cash and cash equivalents	14	112,387	129,291
Total current assets		**307,332**	**261,778**
Total assets		**730,150**	**690,976**
Liabilities			
Current liabilities			
Trade and other payables	15	289,717	223,091
Deferred revenue		20,359	42,585
Lease liability	16	625	621
Total current liabilities		**310,702**	**266,297**
Non-current liabilities			
Payables due in more than one year	11	417,919	422,525
Lease liability	16	839	1,464
Other non-current liabilities		690	690
Total non-current liabilities		**419,448**	**424,679**
Total liabilities		**730,150**	**690,976**
Total net assets		**–**	**–**
Equity			
Share capital	18	–	–
Retained earnings		–	–
Total equity		–	–

The financial statements on pages 87 to 108 were approved and authorised for issue by the Board of Directors on 27 July 2023 and signed on its behalf by:

Richard McCarthy CBE, Chairman
27 July 2023
Smart DCC Limited
Company registered number: 08641679

The notes on pages 91 to 108 form an integral part of the financial statements.

Statement of changes in equity for the year ended 31 March 2023

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 April 2021	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2022 and 1 April 2022	–	–	–
Profit for the year	–	–	–
Other comprehensive income for the year	–	–	–
At 31 March 2023	–	–	–

Statement of cash flows for the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Net cash flows from operating activities	20	(16,344)	38,591
Net cash flows used in investing activities	20	–	–
Net cash flows used in financing activities	20	(560)	(396)
Net increase in cash and cash equivalents		**(16,904)**	**38,195**
Cash and cash equivalents at the beginning of the year		129,292	91,096
Cash and cash equivalents at the end of year	14	**112,388**	**129,291**

The notes on pages 91 to 108 form an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 March 2023

1. GENERAL INFORMATION

Smart DCC Limited is a private Company incorporated, domiciled and registered in England and Wales under the Companies Act 2006. The address of the registered office is 65 Gresham Street, London, England, EC2V 7NQ. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 10 to 35 but can be summarised as managing the delivery of services to Great Britain's energy industry that facilitates secure communications between energy systems and smart meters.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

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

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

b) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 March 2023, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration of the current economic conditions in the UK and the increase in inflation driven by the conflict in Ukraine, for the reasons set out below.

As at 31 March 2023, the Company had total assets less current liabilities of £419.4m. Liquidity as at that date was £112.4m, made up of cash and cash equivalents.

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

Management has modelled several plausible downside case scenarios that cover the period to 31 March 2025. As the Company is entirely funded by SEC Parties, who are also impacted by the current economic conditions, the plausible downside scenarios focus on the impact of lack of payment by customers. The Directors consider the scenarios to be extremely prudent and unlikely to occur. However, by considering such cases Management has ensured that mitigations the Company has in place would be sufficient to ensure adequate liquidity in extreme circumstances.

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

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

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

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

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

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

In addition, the Company has access to financial support, if required, through agreements with its Parent Company, worth a total value of £15.0m (2022: £15.0m).

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

1. The six largest[9] customers failing to pay one months' invoice in the same month
2. The largest customer failing to pay invoices for three consecutive months
3. The largest customer failing to pay invoices for six consecutive months
4. Several medium[10] sized customers failing to pay invoices for the same three consecutive months
5. All smaller[11] customers failing to pay invoices for the same six consecutive months

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

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

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

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

At the same time as the approval and signing of this Annual Report the Directors have approved a certificate of financial resources, as required by the Licence, which confirms that the Directors have a reasonable expectation that the Company will have sufficient financial resources and financial facilities available to itself to carry on operations for a period of 12 months from the date of the certificate. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and Accounts. Further detail is contained in the Strategic Report on pages 7 to 38.

c) Functional and presentational currency

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

d) Use of judgements and estimates

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

The judgements considered significant are set out on page 52 within the Audit and Risk Committee report.

e) Changes in accounting policies

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

9 Determined by value of monthly invoices
10 Customers just outside the top six largest customers
11 Customers with monthly invoices less than £0.3m

f) Revenue

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

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

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

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

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

g) Taxation

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

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

h) Recognition of costs for work completed against contracts

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

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

i) Financial instruments

i. Recognition and initial measurement
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value except for the financing of 4G Communications Hubs which has been accounted for a cash flow hedge (see note a) below)). For a financial asset or financial liability not measured at fair value through profit and loss (FVTPL), it is recognised at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

a) The Company (in Q1 2023) contracted external financing facilities in order to fund the Design, Build and Testing phase of the Communications Hubs and Networks 4G programme. The financing will be split across two lenders and the Company will draw down on these facilities in equal measure to pay suppliers as work is complete and repay those funds to the lenders over a five year period financed by recharges to customers. In order to protect the Company and Customers from fluctuations in interest rates, the Company has entered into an interest rate swap which has been accounted for as a cash flow hedge. (The Company has fixed the interest rate with one of the lenders with the other one floating, so the interest rate swap applies to only 50% of the loaned value). See Notes 11,13 and 15 for balances.

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

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

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

iii. Derecognition

Financial assets

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

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

Financial liabilities

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

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

iv. Impairment

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

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

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

v. Offsetting

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

j) Leases

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

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

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

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

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

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

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

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

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

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

iii. any initial direct costs; and

iv. restoration costs.

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

k) Property, plant and equipment

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

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

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

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2023 £'000	2022 £'000
Continuing operations		
Charges to customers (excluding amounts relating to finance	553,414	510,775
Accrued income	(36,306)	(77,981)
	517,108	**432,794**

Accrued income represents revenue earned in the year for work completed by our key Service Providers in line with contractual obligations, to be billed to customers in future periods, offset against amounts billed to customers for revenue earned in previous periods.

Debts incurred as a result of supplier defaults during the period amount to £0.3m and has been recovered from customers through charges during the financial year in accordance with Section J of the SEC.

Contract balances

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

	2023 £'000	2022 £'000
Unbilled receivables due >12 months	417,919	422,525
Trade receivables	147,440	117,468
	565,359	**539,993**

4. OPERATING SEGMENTS

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

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

Geographical information (external customers)

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

Information about major customers

During the year the Company earned revenue from 96 customers. Of these, two customers, British Gas Trading Limited and E.ON Energy Solutions Limited, combined contributed to more than 36% of revenue.

5. COST OF SALES

	2023	2022
	£'000	£'000
External costs	335,178	269,401
Pass through costs	17,636	25,843
Other external costs	5,566	9,127
	358,380	**304,371**

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

6. ADMINISTRATIVE EXPENSES

	2023	2022
	£'000	£'000
Staff costs	78,728	58,918
Margin and gain share	14,218	24,980
Professional fees	27,858	19,102
IT operating expenses	15,682	9,594
Corporate overhead	11,897	8,403
Office accommodation	3,483	2,711
Recruitment costs	2,407	1,960
Travel and subsistence	1,138	139
Other costs	1,206	443
	156,617	**126,250**

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

7. AUDITOR'S REMUNERATION

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

	2023	2022
	£'000	£'000
Fees payable to the Company's auditor for the audit of the annual accounts	178	97
Total audit fee for statutory and regulatory accounts	**178**	**97**
Fees payable to the Company's auditor for other services to Other assurance services	42	28
Total non-audit fee	**42**	**28**

Other assurance services include review of a certificate of financial resources and carrying out of a set of Agreed Upon Procedures, as required under the terms of the Licence.

8. STAFF COSTS

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

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

	2023	2022
Operations	180	189
Programme management	135	173
Finance, Commercial, Legal and Facilities	121	98
Technology	130	21
Other	139	110
	705	**591**

Their aggregate remuneration (including overhead) comprised:

	2023	2022
	£'000	£'000
Wages and salaries	70,569	52,669
Severance pay	525	72
Social security costs	5,622	4,449
Other pension costs	2,013	1,728
	78,728	**58,918**

9. FINANCE INCOME AND COSTS

	2023 £'000	2022 £'000
Finance income		
Recovery of finance costs from customers	5,882	7,554
Total finance income	**5,882**	**7,554**
Finance costs		
Finance costs on milestone repayments	(5,882)	(7,554)
Lease interest expense	(10)	(16)
Finance bond interest and charges	(540)	(372)
Bank service charges	(10)	(11)
Total finance costs	**(6,442)**	**(7,953)**

10. TAX

	2023 £'000	2022 £'000
Current tax	–	–
Deferred tax	–	–
	–	–

The Company has nil taxable profit, and hence nil tax at the UK Corporation rate of 19% (2022: 19%). No tax amounts have been recognised directly in equity during the year (2022: £nil).

11. NON-CURRENT ASSETS AND LIABILITIES

Included in both non-current assets and non-current liabilities are amounts of £417.9m (2022: £422.5m), representing amounts due from customers and due to Service Providers respectively.

	2023 £'000	2022 £'000
Unbilled receivables in respect of milestones	126,023	173,807
Unbilled receivables in respect of communication hubs	291,896	248,718
	417,919	**422,525**

	2023 £'000	2022 £'000
Supplier payables in respect of milestones	126,023	173,807
Supplier in respect of communication hubs	291,896	248,718
Provision for lease hold restoration costs	690	690
	418,609	**423,215**

At 31 March 2023, our Service Providers had achieved multiple contractual milestones and completed work against other contract obligations. Payments against these are due over the term of the contracts with Service Providers. As the milestones have been achieved and work has been completed the Company has a contractual and constructive obligation for payment, hence a non-current liability of £126.0m (2022: £173.8m) has been recognised, representing amounts payable after 31 March 2023.

These amounts will be recoverable from customers and therefore, a corresponding amount of £126.0m (2022: £173.8m) has been recognised as a non-current asset.

In addition, our Service Providers have been providing our customers with SMETS2 communication hubs. These hubs are installed in consumer homes and allow our customers to use our network. The cost of a communication hub is charged to the DCC by our Service Providers over time, and similarly we recover the value of a communications hub to our customers over the same time period at the same value. As at the end of the reporting period we have recognised the amounts payable over 12 months for communication hubs accepted by customers at £291.9m (2022: £248.7m).

These amounts will be recoverable from customers and therefore, a corresponding amount of £291.9m (2022: £248.7m) has been recognised as a non-current asset.

Within the unbilled receivables and supplier payables includes £11.2m of matched assets and liabilities in relation to the repayment of 4G Communications Hubs drawdown and recovery from Customers.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Land and buildings £'000	Total £'000
Cost or valuation			
At 31 March 2022	8,380	3,418	11,798
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
At 31 March 2023	**8,380**	**3,418**	**11,798**
Depreciation			
At 31 March 2022	(3,599)	(1,527)	(5,125)
Charge for the period	(1,275)	(499)	(1,774)
Eliminated on disposal	–	–	–
At 31 March 2023	**(4,874)**	**(2,026)**	**(6,900)**
Carrying amount			
At 31 March 2022	4,781	1,891	6,673
At 31 March 2023	**3,506**	**1,392**	**4,898**

At year end, the net carrying amount of land and buildings was £1.4m (2022: £1.9m) which relates to the lease of Brabazon House, Manchester. The lease obligations are disclosed in note 16.

13. TRADE AND OTHER RECEIVABLES

	2023 £'000	2022 £'000
Unbilled receivable for milestones due in less than 12 months	80,838	72,580
Unbilled receivable for communication hubs due in less than 12 months	62,589	44,797
Accrued income	*45,308*	13,340
Trade receivables due from customers	4,013	90
Prepayments	717	200
Other receivables	1,480	1,480
	194,945	**132,487**

Unbilled receivables of £143.4m (2022: £117.4m) is the amount to be recovered in the next year from customers for work completed as at the reporting date, and for communication hubs accepted by customers as at the reporting date, this includes £3.0m in relation to the financing of 4G Communication Hubs. The corresponding amount due to Service Providers less payments in advance is recognised in trade payables (see note 15). The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Accrued income represents amounts due from customers for the month of March 2023 but billed in April 2023, therefore not received at the reporting date. The due date is the later of five working days following receipt of invoice and eight working days following the end of the month. The average credit period taken on sales of service is five days from receipt of invoice.

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

14. CASH AND CASH EQUIVALENTS

	2023 £'000	2022 £'000
Cash at bank	87,749	105,818
Credit cover deposits from customers	24,637	23,473
	112,387	**129,291**

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

15. TRADE AND OTHER PAYABLES

	2023 £'000	2022 £'000
Trade payables for milestones due in less than 12 months	80,838	72,580
Trade payables for communication hubs due in less than 12 months	62,589	44,796
Accruals	70,513	36,771
Trade payables due to customers	27,998	24,042
Related party payable	30,487	31,016
Trade payables due to suppliers	9,889	12,488
Other payables	3,000	
VAT payable	4,404	1,398
	289,718	**223,091**

Amounts due in less than one year for milestones and communication hubs are amounts that are due to be paid in the next year to Service Providers in respect of payments due on in line with supplier contracts at the reporting date, this includes £3.0m in relation to the financing of 4G Communication Hubs. These amounts will be recoverable from customers and therefore an amount of £143.4m (2022: £117.4m) has been recognised in trade and other receivables (see note 13).

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

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

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

16. LEASE LIABILITY

	Carrying amount £'000
At 31 March 2022	2,085
Lease liability addition	–
Interest charge	10
Repayments made during the period	(632)
At 31 March 2023	**1,464**
Of which:	
Lease liability due in less than 12 months	625
Lease liability due in more than 12 months	839
	1,464

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

17. OFF BALANCE SHEET ARRANGEMENTS

At the date of the Statement of Financial Position, the Company had unrecognised, future liabilities of £1,641.1m (2022: £1,030.1m). This represents payments that the Company is obliged to make for contractually committed operational charges to Service Providers in line with their contracts from the date of services going live.

18. SHARE CAPITAL

	2023 £'000	2022 £'000
Authorised, issued and fully paid:		
1 ordinary share of £1 each	–	–

19. FINANCIAL INSTRUMENTS

Categories of financial instruments:

	2023 £'000	2022 £'000
Financial Assets at amortised cost		
Unbilled revenue due in more than one year	417,919	422,525
Trade and other receivables	194,945	132,487
Cash and bank balances	112,387	129,291
	725,251	**684,303**

	2023 £'000	2022 £'000
Financial Liabilities at amortised cost		
Payables due in more than one year	417,919	422,525
Trade and other payables	289,717	223,091
Lease liability	1,464	2,085
	709,100	**647,701**

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

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

	2023 £'000	2022 £'000
Contractual cash flows		
1 year or less	157,345	122,701
1 to 2 years	160,141	121,639
2 to 5 years	229,432	231,950
Beyond 5 years	36,725	80,385
Total	**583,643**	**556,675**
Amounts due in more than one year	417,919	422,525
Amounts due in less than one year	143,427	117,378
Carrying amount	**561,346**	**539,903**

FINANCIAL RISK MANAGEMENT

Capital risk

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Market risk

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

20. CASH FLOW STATEMENT

	2023 £'000	2022 £'000
Profit for the year	–	–
Adjust for:		
Net finance costs	560	396
Depreciation	1,774	1,777
Other non-cash movements	(1,139)	3,478
Decrease/(Increase) in trade and other receivables	(35,891)	31,424
Increase in trade and other payables	40,576	328
Increase in deferred revenue	(22,225)	1,188
Net cash from operating activities	**(16,344)**	**38,591**
Net cash used in investing activities	**–**	**–**
Recovery of finance costs from customers	5,882	7,554
Finance costs on milestone repayments	(6,442)	(7,950)
Net cash used in financing activities	**(560)**	**(396)**

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

21. RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

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

Key Management Personnel

The total amounts for Directors' remuneration were as follows:

	2023 £'000	*(Re-stated)* 2022 £'000
Total remuneration	1,213	1,027

Included in the amount shown above is £461.9k (2022: £405.8k) in respect of qualifying services for the highest paid Director which was all paid as salary, bonus and benefits. There was £13.8k (2022: £12.0k) paid in pension contributions. The Directors of the Company are considered to be the Key Management Personnel. For details of the components of remuneration please see the Directors remuneration report on page 62.

Balances and transactions with other group undertakings

	2023 £'000	2022 £'000
Amounts included in operating profits	124,137	103,338
Amounts owed to related parties	30,487	31,016
Amounts owed from related parties	–	–

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

22. EVENTS AFTER BALANCE SHEET DATE

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

8. Glossary

Acronym/ abbreviation	Meaning
ARC	DCC Audit and Risk Committee
BEIS	Department for Energy, Industry & Industrial Strategy
CBSL	Capita Business Services Limited
CEO	Chief Executive Officer
CES	Customer Effort Score
CFO	Chief Finance Officer
CH	Communications Hubs
CO2e	Carbon Dioxide equivalents
CSP	Communication Service Provider
CSS	Central Switching Service
DBCH	Dual Band Communications Hubs
DCC	Data Communications Company
DEFRA	UK Department for Environment, Food and Rural Affairs
DNO	Distribution Network Operators
DSP	Data Service Provider
ECoS	Enduring Change of Supplier
eNPS	Employee Net Promoter Score
EV	Electric vehicle
ExCo	DCC Executive Committee
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit and Loss
GBCS	Great Britain Companion Specification
GDPR	General Data Protection Regulation
GFI	GBCS for Industry (a testing tool)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	Implementation Managers Forum
ISO	International Standards Organisation
IT	Information Technology
KPI	Key Performance Indicator
MEDapps	Modernising Energy Data Applications
MHHS	Market-Wide Half-Hourly Settlement
NCSC	National Cyber Security Centre
NED	Non-Executive Director
OCI	Other Comprehensive Income
OPR	Operational performance regime
QFF	Quarterly Finance Forum
REC	Retail Energy Code
SAF	Security Architecture Framework
SEC	Smart Energy Code
SET	Switching Enterprise Transition
SECAS	Smart Energy Code Administrator & Secretariat
SMIP	Smart Meter Implementation Programme
SMKI	Smart Metering Key Infrastructure
SOC	Security Operations Centre
TOC	Technical Operation Centre
TOM	Target Operating Model
UCF	Unsecured Credit Factor
UK	United Kingdom
VAR	Value at Risk
VAT	Value Added Tax
WBCSD/WRI	World Business Council for Sustainable Development and World Resources Institute's