# Smart Energy Code

## Quarterly Budgetary Report

*Q2 2024-25*



# Contents

## Background

The SEC Panel budget sets out the Panel's good faith estimate of the Recoverable Costs that it believes will be incurred during the next three Regulatory Years.

The budget setting process for 2024-2027 started in October 2023 with input from the Panel's Finance and Contract Sub-Group (PFCG). It was reviewed by Panel Members and agreed before a SEC Party consultation was issued in January 2024 in accordance with SEC Section C8.13.

This Q2 Budgetary Report is a report providing the year-to-date out-turn of the Panel budget covering the period 1 April 2024 – 30 September 2024. The report has been established this year following feedback from SEC Parties and is seeking to provide transparency and information which is normally only available to SECCo Board members.

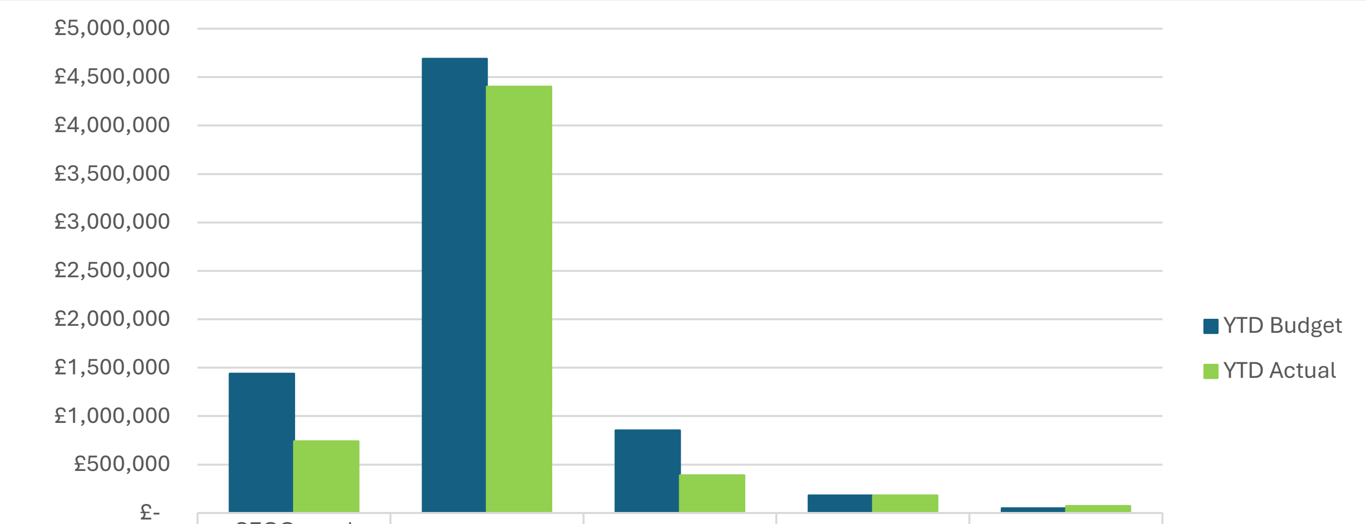
## Executive Summary

The Panel set a budget of £14,753,886 for 2024-25, for the Panel, its Sub-Committees, Smart Energy Code Company Ltd and the Smart Energy Code Administrator and Secretariat (SECAS) to complete the activities outlined within the SEC, alongside additional specified projects. The quarterly budget is therefore £3,688,472.

The amount of money spent to date is £5,786,044 against a budget of £7,376,943 representing underspend of £1,590,899.


Mindful of cost pressures facing the industry, the Panel and Board have been careful only to approve expenditure where it is absolutely required. So far, 10 projects (of a budgeted 20) have been approved to date accounting for a proportion of the underspend. The primary driver for the underspend has been around recruitment. Given the number of roles that SECCo is recruiting, it has been difficult to recruit and onboard all roles at once. Recruitment has mainly been done via LinkedIn to ensure that recruitment is as cost-effective as possible. 6 of the 14 provisioned for this year, have so far been appointed.

An overview of YTD budgeted versus actual costs is provided in Figure 1 (overleaf), with further detail outlined below.




| | SECCo and Panel Operations | SECAS Services | Project | SMDA | OPR Auditing |
|---|---|---|---|---|---|
| YTD Budget | £1,438,660 | £4,688,997 | £851,962 | £180,000 | £49,500 |
| YTD Actual | £740,927 | £4,402,273 | £390,994 | £180,000 | £71,849 |

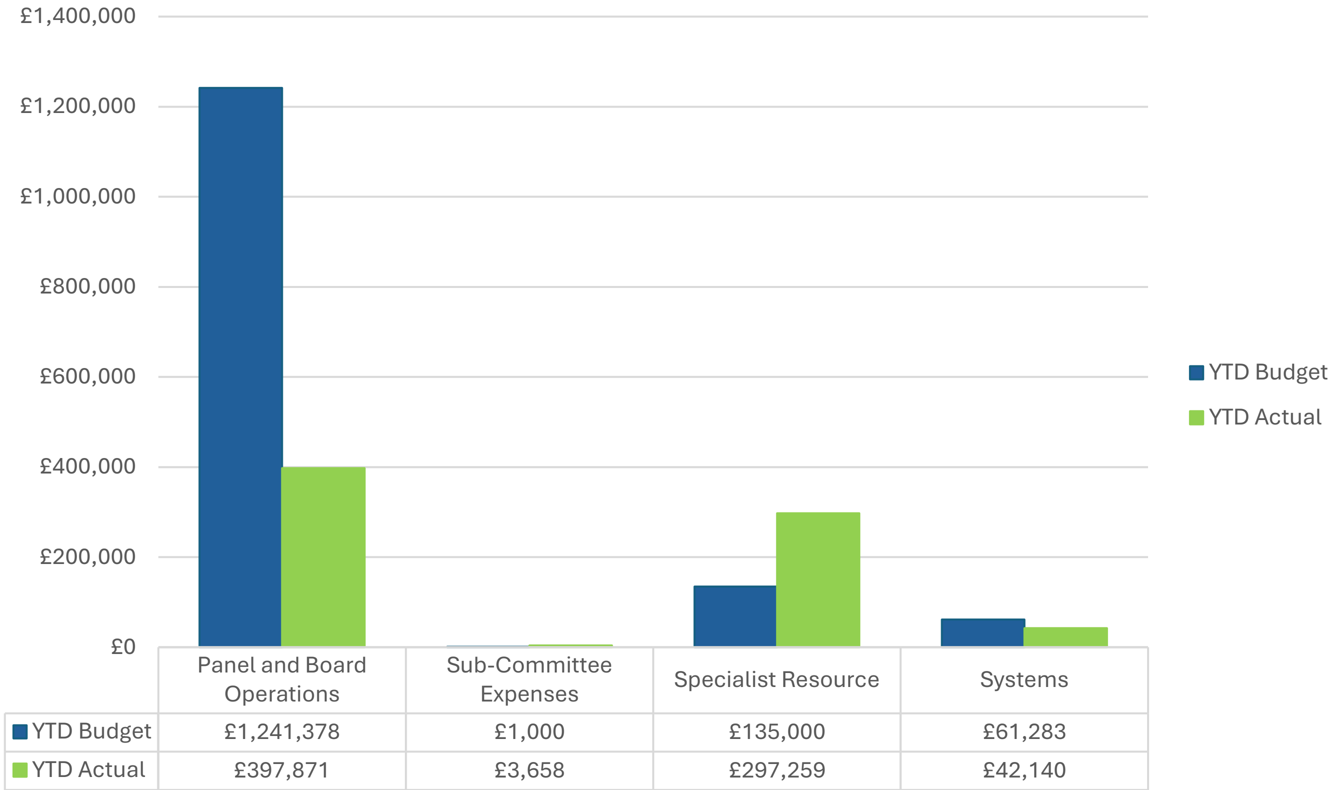
*Figure 1: 2024-2025 YTD Out-turn against Approved Budget*

## SECCo and Panel Operations

YTD Budget (£1439k) | YTD Actual (£741k)

This budget category covers all the activities of the SEC Panel and SECCo Board relating to the running of the Smart Energy Code Company and its Sub-Committees, including salaries, expenses, legal costs, Independent Chair charges, the User Competent Independent Organisation (CIO) and systems.

Year to date, this category came in under budget by £697,733. A breakdown of key variances is included in the sections below.




| | Panel and Board Operations | Sub-Committee Expenses | Specialist Resource | Systems |
|---|---|---|---|---|
| YTD Budget | £1,241,378 | £1,000 | £135,000 | £61,283 |
| YTD Actual | £397,871 | £3,658 | £297,259 | £42,140 |

*Figure 2: Year-to-date variance against SECCo and Panel Operations budget at category level*

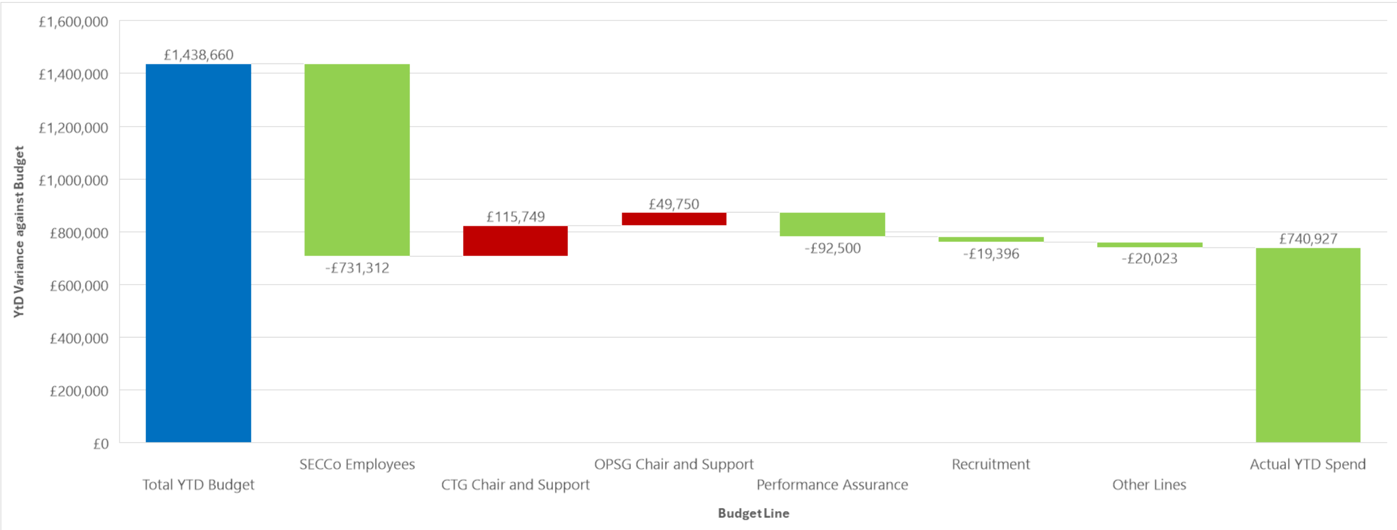



*Figure 3: Waterfall Chart illustrating Key Year-to-Date Variances (± £10k) in SECCo and Panel Operations Budget (Key: Red = overspend versus YTD budget, Green = underspend versus YTD budget)*

## Panel and Board Operations

The Panel and Board Operations sub-category includes costs for the following items. Overall underspend of £697,733 is reported, with the key variances as described below:

**SECCo Employees** – this is under budget by £731,312 as six of fourteen roles anticipated in 2024/2025 have so far been recruited, as part of the phased recruitment plan.

**Performance Assurance** – this is showing underspend of £92,500 as the set-up of a Performance Assurance Framework was pending Authority approval of the related modification (MP224). This was approved for implementation on 7 November 2024.

**Recruitment** – so far, SECCo have been able to recruit its required resources without the need to use a recruitment consultant. This has resulted in not having to spend any of the £19,396 budget so far.

**User CIO/IPA** – there has been less requirement for central User CIO support, and so there is currently £5,174 underspend in this category.

**Legal** –there has been less requirement for Legal support so far, and therefore there is underspend of £5,220 in this category.

**SEC Party Engagement Day** – this is showing overspend of £6,615. However, spend is within the annual budget, albeit the cost has been budgeted for on a monthly basis.

## Sub-Committee Expenses

The Sub-Committee Expenses sub-category is for expenses related to the activities of the SEC Sub-Committees. An overspend of £2,658 is recorded.

## Independent Chairs and Specialist Resource

The Independent Chairs and Specialist Resource sub-category contains provision for external resources that support the Sub-Committees, including the:

- Security Sub-Committee (SSC) Chair
- Smart Meter Key Infrastructure Policy Management Authority (SMKI PMA) Chair
- Technical Architecture and Business Architecture Sub-Committee (TABASC) Chair
- SMKI Specialist, as defined in the SEC
- Communications Transition Group (CTG) Chair

Overall expenditure was over budget by £297,258 for this category, driven primarily by expenditure on the following:

**OPSG Independent Chair** – expenditure of £49,750 was incurred for this role. There has been no increase in this amount since quarter one, as the role of Independent Chair is now being carried out by a SECCo Employee.

**CTG Chair –** there is expenditure of £115,748 for this role, it was originally expected to be moved from an independent consultant to a SECCo Employee sooner than has been possible. In addition, there was some cost for a handover period to transition the role from Engage to SECCo. Therefore, this overspend is offset by underspend against the SECCo Employee remuneration budget line.

## Systems

The Systems sub-category contains provisions for the systems that are maintained on behalf of the Panel and SECCo, including the website, Egress and CodeWorks. A £19,143 underspend is recorded in this area due to a reduced need for Website Maintenance, following the launch of the new website, and no costs yet being incurred for CRM Helpdesk licences and the AMS Security Booking Tool.

The outturn against each SECCo and Panel Operations budget line is included in Table 1 below. Total outturn was £697,733 below budget.

| Budget Category | Budget Line | YTD Budget | YTD Actual | Variance |
|---|---|---|---|---|
| Panel and Board Operations | Bank Charges | £500 | £474 | £26 |
| | Legal | £31,625 | £26,405 | £5,220 |
| | SECCo | £29,169 | £33,092 | -£3,923 |
| | Panel Members | £12,000 | £8,412 | £3,588 |
| | SEC Party Engagement Day | £5,751 | £12,366 | -£6,615 |
| | Customer Satisfaction Survey | £3,728 | £7,500 | -£3,773 |
| | Licences | £1,650 | £1,050 | £600 |
| | User CIO/ IPA | £70,000 | £64,826 | £5,174 |
| | Performance Assurance | £92,500 | £0 | £92,500 |
| | SECCo Employees | £969,456 | £238,144 | £731,312 |
| | Recruitment | £25,000 | £5,604 | £19,396 |
| Sub-Committee Expenses | All Sub-Committees | £1,000 | £3,658 | -£2,658 |
| Specialist Resource | SMKI Independent Chair | £5,000 | £3,360 | £1,640 |
| | SSC Independent Chair | £80,000 | £91,200 | -£11,200 |
| | TABASC Independent Chair | £30,000 | £26,400 | £3,600 |
| | OPSG Independent Chair | £0 | £49,750 | -£49,750 |
| | SMKI Specialist | £20,000 | £10,800 | £9,200 |
| | CTG Chair and support | £0 | £115,749 | -£115,749 |
| Systems | Website Maintenance | £15,000 | £1,317 | £13,683 |
| | File Sharing Solution | £2,876 | £7,792 | -£4,916 |
| | CodeWorks | £33,031 | £33,031 | £0 |
| | CRM Helpdesk Licences | £6,326 | £0 | £6,326 |
| | AMS Hosting/IT Support | £4,050 | £0 | £4,050 |
| Total | | £1,438,660 | £740,927 | £697,733 |

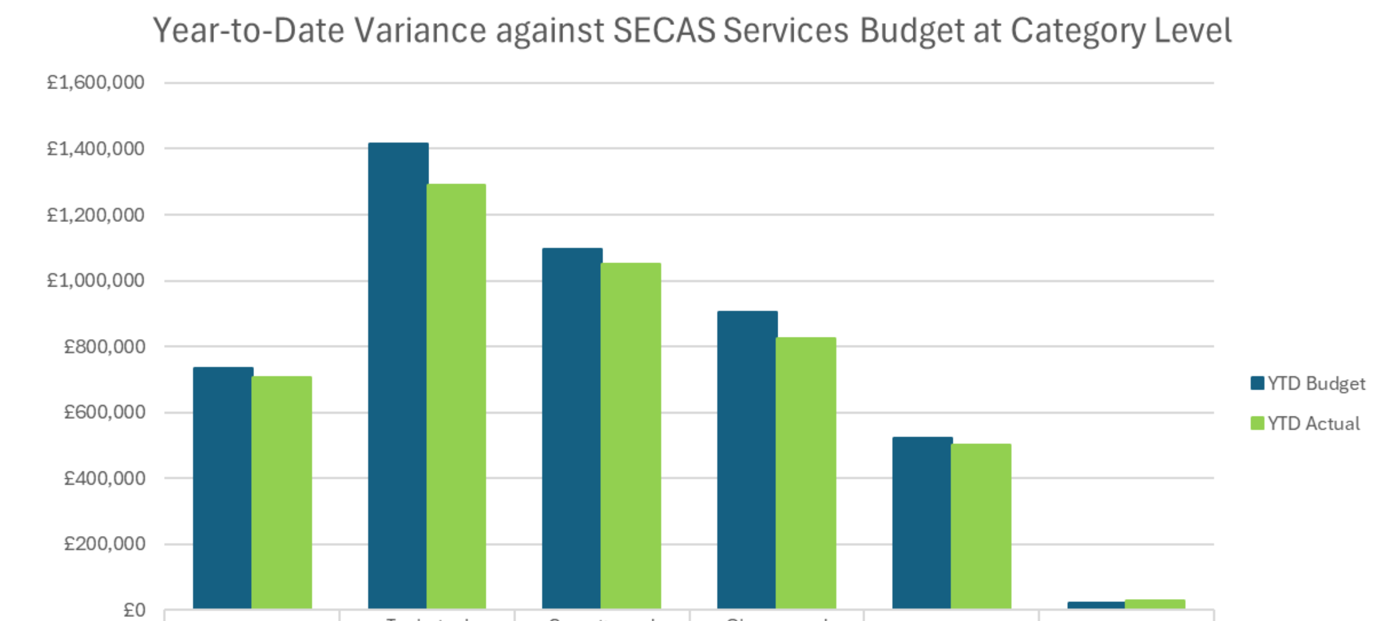
*Table 1: YTD Budget Line Variances for SECCo and Panel Operations*

## SECAS Services

| YTD Budget (£4.69m) | YTD Actual (£4.40m) |
|---|---|

The SECAS team supports the evolving needs of SEC Panel, Sub-Committees and SECCo, through a combination of the Core Team and use of Subject Matter Experts as needed. The team provides a variety of support including Governance and Consultancy in the Technical, Security and Privacy aspects of Smart Metering. YTD outturn is below budget in all areas at a total of £286,724.

Please note there is a 7.5% discount on the SECAS Services costs that is applied at the end of the year.




| | Panel and Board | Technical Operations | Security and Privacy | Change and Releases | Party Engagement | Accommodation |
|---|---|---|---|---|---|---|
| YTD Budget | £732,781 | £1,413,829 | £1,094,758 | £903,484 | £521,446 | £22,700 |
| YTD Actual | £706,718 | £1,290,954 | £1,048,883 | £825,890 | £500,152 | £29,676 |

*Figure 4: Year-to-date variance against SECAS Services budget at category level*

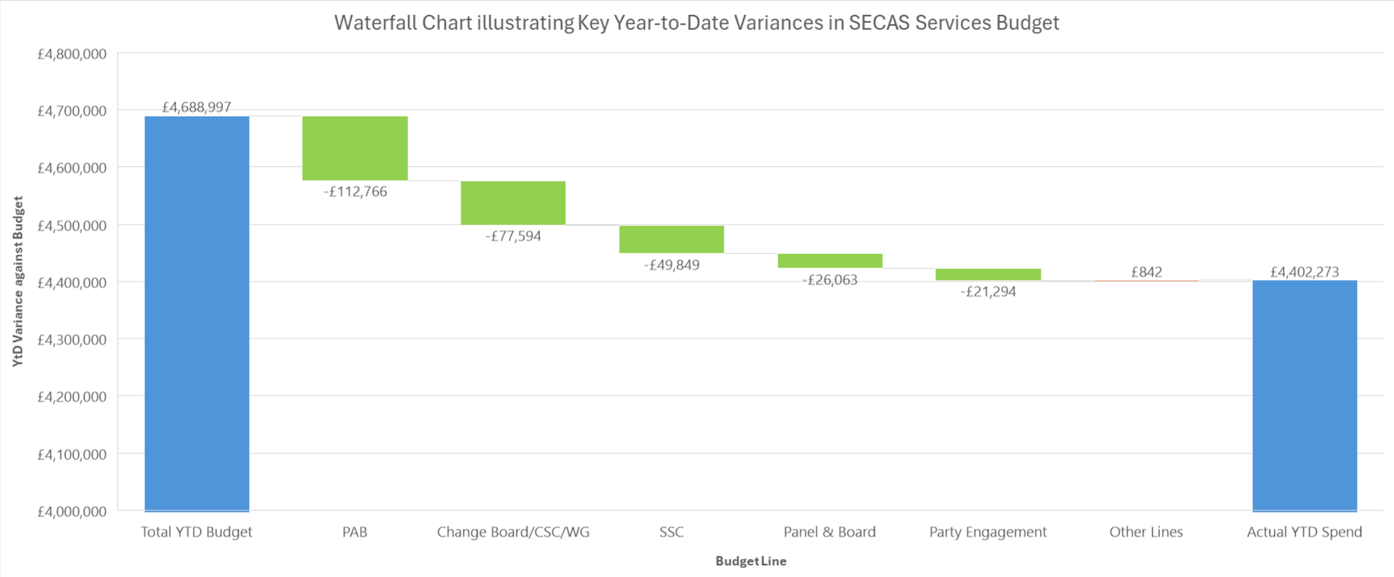



*Figure 5: Waterfall Chart illustrating Key Year-to-Date Variances (± £10k) in SECAS Services Budget (Key: Red = overspend versus YTD budget, Green = underspend versus YTD budget)*

## Service Areas

Full details of out-turn against budget are provided in Table 2 below.

The main areas of underspend were as follows:

**Panel & Board (£26k)** due to a new role reflected in the SEC Panel Approved Budget which had not been filled.

**PAB (£113k)** as this Committee has not been established pending a decision from the Authority on whether to approve Modification MP224.

**SSC (£50k)** due to fewer assessments taking place in the period than budgeted.

**Change & Release (£78k)** due to a reduction in new Modifications being raised, in conjunction with staff annual leave, and a vacancy which has since been filled.

**Party Engagement (£21k)** due to staff annual leave and a vacancy which has since been filled.

**OPSG (£31k)** due to fewer Operations-impacting consultations than budgeted in Q2.

**SCIRS (£11k)** due to much shorter meetings being held and reduced expert input required.

This was partially offset by some areas exceeding budget:

**CTG (£4k)** due to development and provision of a SMETS1 End of Life RFI in Q1.

**SMKI PMA (£5k)** due to 6-monthly Standards and Best Practice Review.

**SMDA (£21k)** due to additional meetings and support on the SMDA Test House Procurement, and additional work on preliminary impact assessments of industry issues.

**Privacy (£9k)** due to longer Sub-Committee meetings being required in response to member feedback wishing to increase the time available for agenda items and discussion.

**Accommodation (£7k)** due to more in-person meetings and use of office space by SECCo employees.

| Service Area | Sub-Committee | YTD Budget | YTD Actual | Variance |
|---|---|---|---|---|
| Panel & Board | N/A | £732,781 | £706,718 | £26,063 |
| Technical Operations | TABASC | £361,708 | £361,453 | £255 |
| | OPSG | £542,349 | £511,499 | £30,850 |
| | PAB | £112,766 | £0 | £112,766 |
| | CTG | £56,414 | £60,153 | -£3,739 |
| | TAG | £216,793 | £213,002 | £3,791 |
| | SMDA | £123,799 | £144,848 | -£21,049 |
| Security & Privacy | SSC | £868,822 | £818,972 | £49,849 |
| | SCIRS | £17,517 | £6,861 | £10,656 |
| | SMKI PMA | £64,207 | £69,409 | -£5,203 |
| | Privacy | £144,213 | £153,640 | -£9,428 |
| Change & Releases | Change Board, CSC, WG | £903,484 | £825,890 | £77,594 |
| Party Engagement | N/A | £521,446 | £500,152 | £21,294 |
| Accommodation | | £22,700 | £29,676 | -£6,976 |
| Total | | £4,688,997 | £4,402,273 | £286,724 |

*Table 2: SECAS Services YTD Out-turn against Budget*

## Projects



*Figure 6: Waterfall Chart illustrating Key Year-to-Date Variances in Projects Budget. (Key: Red = overspend versus YTD budget, Green = underspend versus YTD budget)*

This budget category outlines additional items of SEC expenditure, some of which are at the discretion of the SEC Panel, and some of which are mandated by the SEC. Any expenditure against the Project budget requires prior approval and oversight from the SEC Panel and SECCo Board. A Project Brief (including proposed scope, budget, milestones and deliverables) will first be approved by the relevant SEC Sub-Committee, before being presented to the SEC Panel and Board for approval prior to release of funds. The SECCo Procurement Policy is followed to guide the SECCo Board when determining the delivery approach for new activities, work packages and projects.

So far this year, ten projects have commenced, eight of which were identified in the SEC Panel Approved Budget 2024-25. YTD Project spend for 2024-25 was £390,994 against a budget provision of £851,962. There is a further £885,511 remaining in the full-year Project budget. Further detail on each of the project categories is available in Table 3 below, along with spend to date.

| Project | YTD Actual | YTD Budget | Variance |
|---|---|---|---|
| Digitalisation | £75,731 | £93,750 | £18,019 |
| CPA Matters | £23,465 | £18,750 | -£4,715 |
| SMDA - Test House Procurement | £41,902 | £5,000 | -£36,902 |
| SECCo Role & Structure/Procurements/TOM | £83,157 | £28,125 | -£55,032 |
| CPA Scheme Transition | £47,998 | £336,338 | £288,339 |
| Assessment of AI Risks and Opportunities | £68,436 | £28,125 | -£40,311 |
| SMDA - SEC Releases | £1,387 | £6,250 | £4,863 |
| SMDA - Double Band Device Testing | £4,184 | £0 | -£4,184 |
| SMDA - Earlier Testing of CH FW | £428 | £0 | -£428 |
| Annual Security Obligations - Risk Assessment | £44,306 | £62,500 | £18,194 |
| Annual Security Obligations - Security Architecture | £0 | £50,000 | £50,000 |
| Strategic Working Group Support | £0 | £28,125 | £28,125 |
| Threat Assessment | £0 | £12,500 | £12,500 |
| Quantum Computing | £0 | £56,250 | £56,250 |
| DCC Licence Review | £0 | £13,125 | £13,125 |
| Transfer of Transitional Governance | £0 | £12,500 | £12,500 |
| Supplier Issues | £0 | £13,125 | £13,125 |
| Annual Incident Management | £0 | £30,000 | £30,000 |
| Data Sharing/Privacy | £0 | £22,500 | £22,500 |
| Privacy - Data Protection & Digital Information Bill | £0 | £20,000 | £20,000 |
| SMDA - DSP Procurement | £0 | £3,750 | £3,750 |
| SMDA - 4G Communications Hub | £0 | £11,250 | £11,250 |
| Total | £390,994 | £851,962 | £460,968 |

*Table 3: Breakdown of Project Costs*

## Commercial Product Assurance (CPA) Matters

CPA matters are discussed within the monthly Security Sub-Committee CPA Issue Resolution Subgroup (SCIRS) meetings. This forum allows the National Cyber Security Centre (NCSC), DESNZ, SSC and the industry to work together to resolve CPA matters. This provision is for CPA and Smart Metering CPA Security Characteristic expertise to support SCIRS; provide ad hoc technical advice; support maintenance of CPA Guidance and related documents; and support on the Risk Review process. Spend of £23,465 has so far been recorded.

## Future CPA Scheme Transition/Procurement

Following the announcement that the NCSC will be stepping back from management of the CPA Scheme, this project budget was to facilitate SECCo's procurement of a Scheme Operator and will fund the handover period and initial operation of the Scheme in 2024/25. Spend of £47,998 has so far been recorded. Due to an increase in scope of transition activities and adjustments to the Invitation to Tender, an additional budget of £23,598 was approved by the SECCo Board in September.

## Digitalisation

In response to industry feedback and Ofgem's desire for industry codes to be digitalised, SEC Panel is continuing to digitalise its services to make content and participation more accessible to SEC Parties. This provision allows opportunities to progress such as a more collaborative space for Change modifications, and second phases of the Security Assessment Digital Booking tool and Website. So far, we have spent £75,731 on the delivery of a new SEC Website which went live in May 2024. There has been no additional spend since June on this budget.

## SECCo Role & Structure/Procurements/TOM

This provision is to continue the work initiated in 2023/24 to review SECCo's Target Operating Model. The bulk of design work was completed last year, and the lower provision for the next three years is to cover any resulting procurements. So far we have spent £83,157 which covered the recruitment of six SECCo employees including Head of Industry Operations, Head of Code and Regulatory Strategy, Head of Service Management, Head of Sub-Committee Management, Industry Operations Manager and the SECCo Executive Assistant. It also included the set-up of SECCo as an employer, putting in place IT, a new pension scheme and employee policies and insurance. A third-party was also engaged to help SECCo determine company employer policies and to undertake the procurement and set up of the pension scheme. They also evaluated the jobs roles to ensure SECCo was valuing the roles appropriately.

## Assessment of AI Risks and Opportunities

This project is considering the implications of Artificial Intelligence and whether the SEC has the right controls in place. Impacted areas include the SEC Obligations, Agreed Interpretations, Security and Privacy Controls Frameworks. This project is undertaking a risk assessment of existing and potential uses of AI on consumption and smart metering data and is researching the applicability of AI governance models. So far, we have spent £68,436 on this project.

## SMDA Test House Procurement

This budget provisioned for the completion of a competitive tender process for a Test House to support the SMDA Scheme, which we are hoping will reduce ongoing Test House costs. Following project scoping, the

SECCo Board agreed a revised budget of £42,198 for the procurement exercise to allow for increased scrutiny of the tendering process. So far, we have spent £41,902.

### SMDA – SEC Releases

Change Modifications in the SEC July and November releases require updates to SMDA testing to ensure that the Scheme continues to align with industry testing standards. So far, we have spent £1,387 on this project.

### SMDA – Double Band Device Testing

This budget covers SECAS working with the Test House to introduce changes to ensure that Double Band specific device functionalities are tested as part of the SMDA suite of tests, ensuring alignment with requirements specified in technical documentations. So far, we have spent £4,184 on this project.

### SMDA – Earlier Testing of CH FW

This budget covers SECAS working with the Test House and the SMDASC to introduce the new way of working and develop an agreed documented process. So far, we have spent £428 on this project.

## SMDA

The SMDA Scheme now falls under the governance of the SEC, with the fixed costs of the SMDA Test House being borne by the SEC Panel Budget. YTD spend for the SMDA Test House was on budget at £180,000.

## OPR Auditing

As part of the update to the Operational Performance Regime (OPR), Ofgem undertook an independent audit of DCC's contract management. The SE Panel budget funds the OPR audit which Ofgem has instructed. The SEC Panel is included in considering the audit report when it is returned.

The YTD budget is £49,500 although the YTD spend is £71,849, which represents the entire cost for the year, which has now been invoiced. This comes in under the full year budget.

## Contingency

The Board has so far not drawn down on the YTD contingency provision of £514,670.