



CREDERA

ELEXON

Internal Efficiency Benchmarking Report

EXECUTIVE SUMMARY

Context

In November 2021, Elexon asked consultants Credera to undertake a benchmarking exercise to assess Elexon's costs for internal business functions versus a benchmark derived from the average costs by business function associated with a set of similar organisations in the public and private sector. The majority of the work took place in November and December 2021 and was based on the 12-month period ending Dec 2021.

Findings

- In summary, we found that Elexon's costs are roughly in line with its peers. The costs associated with each department we reviewed were within 10% of the benchmark and, on average, its costs were less than 5% more than the average of the peer companies.
- Elexon's costs are rising faster than the peer companies. This is because Elexon is going through a period of transformation, replacing legacy systems that are becoming obsolete and are not conducive to making rapid changes to reflect the changing regulatory environment.
- Elexon has also been undertaking additional work, including facilitating the industry-led implementation programme to implement MHHS since April 2021,
- The cost differences are relatively small; whilst we often find differences over 15% within departments, the low level of deviation from the benchmark observed in Elexon's cost base can be caused by temporary effects or cost drivers particular to the benchmarked business.
- The benchmark was created using peers across the UK. It would be expected that some of Elexon's costs, being predominantly based in the South-East of England, would be higher than the benchmark.

EXECUTIVE SUMMARY (continued)

Findings

- We believe that it may be worth investigating the following opportunities for cost savings:
 - Most of Elexon's project spend is now managed via projects that have adopted Agile. However, Elexon still uses a Waterfall methodology for many of its projects.
 - For its waterfall projects, Elexon has historically sought to gain a fixed price commitment from its vendors. This means that it takes longer on average to initiate projects and define requirements. Therefore, more legal and procurement time is needed than for peers who make greater use of Agile. It is widely accepted that projects of this type are typically more productive if they use Agile.
 - Staff costs were slightly lower than our benchmark. This could be a factor in the higher effort and costs of recruitment, higher staff turnover than for peers, and could therefore be a contributory factor in the higher HR costs and the greater use of subcontractors.

Recommendations

- Elexon should continue the transition to using Agile as its preferred approach for projects:
 - Accelerate the contracting process through the reduced reliance on the Waterfall approach.
 - Embed Agile fully into the legal process and thereby reduce the effort from the legal team in contracting third parties for programme work.
- Elexon should consider reviewing staff remuneration to ensure it is aligned to the market. If this review concludes that Elexon's remuneration rates are below market (as we suspect), higher rates for permanent staff may help to reduce the effort and costs of recruitment and could reduce the need for some types of contracting staff.
- Elexon should complete the work currently underway to forecast the future costs of legacy and new systems and operational processes so that the likely transformation and ongoing costs are fully understood.

General observations

- The number of FTEs employed is productive, as measured by FTE per headcount/spend/activity. There are some areas where there may be opportunities for efficiency saving, but these are all relatively small.
- Average employee staff costs are not excessive, even though there are areas of higher usage of contractors than the benchmark.
 - There is a large vacancy / recruitment need, and this recruitment workload may need greater recognition to enable success in that recruitment. Especially, that in most cases despite a higher proportion of contractor staff cost there is not a corresponding higher average staff cost. This may also impede HR where recruitment appears to fuel a higher cost.
 - The peer group includes non-London locations, and Elexon's similar or lower staff costs suggest there is no London premium, although in part this may also be behind recruitment issues and higher contractor spend.
- Overall costs continue to increase year on year (circa +20% per year, based on Annual Financial Statements).
 - While this is driven by demand from the amount of project change, it has not adversely affected performance.
 - In fact, project delivery continues to be relatively successful despite this growing demand. Compared to peers, more projects are delivered to budget (but fewer are delivered on time). The reasons for this are complex.
 - There is no compelling evidence that this cost increase year on year is caused by any systemic governance or controls inefficiency.

Elexon's response to Credera's recommendations and findings

- We welcome the report and we believe that it demonstrates that we are delivering good value for money for BSC Parties while continuing to invest in our systems to meet Net Zero.
- We recognise that our costs have increased, driven by the need to invest in redeveloping our systems. Around one third of our 2022/23 budget of £98.2m is for mandatory activity in support of MHHS implementation. Our not-for-profit model ensures that we return any unused budget to our customers.
- Our costs have also increased because we are taking on additional work from Ofgem and the Government. For example, since Credera completed its analysis, Ofgem confirmed (in May 2022) that Elexon will administer the Capacity Market Advisory Group, which supports Ofgem's Capacity Market rules change process.
- We are now delivering more of our major programmes using an Agile approach. In January 2022, software vendors began work on the development of solutions for our Helix Programme, which will overhaul BSC Central Systems so that we can receive, process and publish MHHS data (once MHHS is implemented).
- Helix is being delivered using Agile and we are already seeing some benefits. Our Elexon Kinnect programme, which is re-architecting BSC Systems to a cloud platform, is also being delivered using a mix of Agile and Waterfall approaches as appropriate.
- We seek fixed prices for contractors to support Waterfall projects in order to provide as much certainty as we can to our customers on costs, and minimise risk.
- We do benchmark salaries using well regarded data to check that Elexon pay is competitive in comparison with similar roles elsewhere in the sector. We also have an attractive benefits and pension package offer for permanent and fixed-term colleagues. However, we recognise that in order to remain competitive we must continue to ensure that staff are paid appropriately.
- We put in place a one-off payment in July 2022 in recognition of the increased cost of living. Performance related bonus payments have also been reformed to give staff further financial incentives to deliver excellent service and aid retention.