Xoserve Efficiency Review

Summary

September 2023

About this document

In July Xoserve appointed a global management consultancy to undertake a review of the efficiency of the services that we provide to our customers. The work was completed in September and this document provides a summary of their approach and findings.

Our last external review occurred in 2019 and informed subsequent business plans but only assessed approximately 30% of our expenditure. This was partly due to the unique nature of our business but was also constrained by how we describe our services to which we allocate costs.

A particular objective of this year's review was to redefine our services and costs in such a manner as to increase their comparability with external benchmarks. By working in collaboration with us and Correla, our primary supplier, the consultancy has been able to increase the coverage of the review to 80% of our expenditure. They were able to do this by the intensity of their review, during which they reviewed over 40 key documents and conducted over 50 hours of interviews.

We would like to thank them for their thoroughness as well as Correla for the level of support that they provided, which we were told was above normal for such an exercise. We accept the findings of the report and will be acting on its recommendations.

James Spicer, *Head of Finance and Support Services*

The review focused on delivering three target outcomes

Deliverables

1 Baseline **cost report** and narrative indicating major cost items and spend.

2 **Benchmarks** indicating cost efficiency gaps against comparable companies.

3 Baseline **cost model** to enable ongoing use and updates.

Target outcomes

Visibility into cost base & major cost line items for continuous tracking & stewardship.

Assessment of cost efficiency gaps, recognising Xoserve's unique position.

Clear **Narrative** for how to think about efficiency initiatives and levers and feasibility to achieve.

Repeatable

The review remapped costs for ease of comparison

Cost mapping approach

Cost category	Cost allocation (%)		Description	Examples
	S&O[1]	Projects[2]		
Cost to Operate (C2O)	~70	0	• Costs incurred running the core processes Xoserve delivers for the industry	• Functions such as Operations, Service Desk • Costs such as IT run
Cost to Change (C2C)	~20	100	• Costs (in-year and end-to-end) of delivering programmes and fixed change	• Regulatory and Keep the Lights on activity • Industry reform programmes
General & Administration (G&A)	~5	0	• Costs of supporting the broader organisation,	• Functions such as Finance and Procurement
Out of scope	~5	0	• Costs that are purely pass-through and non-controllable	• Activities not related to Xoserve's operations and/or within Xoserve's control

Total cost base

These four cost categories are typically aligned with benchmarks that are available or built for comparable organisations, allowing a like-for-like comparability of benchmarks.

1. S&O: Service and operate costs for running the CDSP service, as referred to in Xoserve Business Plan 2023; 2. Projects: costs of one-off pieces of work, as referred to in Xoserve Business Plan 2023;

Various benchmarks and assessments were used

Comparable benchmarks used...

	Energy system central bodies	Information technology service providers	Customers	Related industries & aggregated sources
Description	Regulated companies involved with data management in the energy sector.	Information and technology service companies typically performing outsourced activities for the industry .	Customers of Xoserve incl. shippers, transporters etc.	Telcos, ICT, Financial Institutions and payment infrastructure providers.
Benchmark relevance	Similar activities and operate in a highly regulated context.	Companies executing the activities and implementing the change.	Similar programmes and challenges experienced across the industry.	As and when relevant for specific analyses (e.g. invoicing costs, G&A, etc.).

...but benchmarks to be carefully interpreted

Interpret data in the broader context

Benchmarks often strip data of its context and thus require careful interpretation.

Balance backward with forward look

Pure "back mirror" benchmarks often do not capture the impact of future opportunities, technologies and challenges – enable an appropriate translation into a forward look.

Ensure comparability

The definition and measurement of metrics is crucial for meaningful insights – organization often measure same metrics in different ways.

Move from insight to action

Issues (& potential fixes) exist at the process level; numbers only reflect underlying issues – understanding of root causes and gaps to best practices are essential for impact.

Cost to operate assessment

Assessment dashboard

Assessment	
C2C % of total spent	🟡
Direct costs as % of total costs	🟢
Cost to serve per message	🟢
Invoicing process cost	🟡
Credit processing cost	🟢
Invoicing, balancing & credit costs	🟢
Cost per switch	🟢
Service desk as % of IT cost	🟢
Gas vs. electricity enquiry services	🔴
IT "run" spend as % of revenue	🟢
Managed spend per Procurement FTE	🟢
Reg. & reporting proportion of total cost	🔴
Assurance as % of total cost	🟡

🔴 Lower performer   🟡 Median performer   🟢 Upper performer

Cost to Operate accounts for approximately 50% of Xoserve's expenditure, circa 60% of costs were able to be assessed, which was deemed to be good considering the relatively unique set of processes carried out by Xoserve on behalf of the industry. Xoserve benchmarked well with half at upper performance, a quarter at median and quarter at lower quartile.

The key invoicing process benchmarks in line with utility comparators and is competitive with other industries given the level of complexity involved.

Despite the positive assessment there are efficiency opportunities in reporting and assurance and greater movement to upper performance.

Cost to change assessment

Assessment dashboard

Assessment	
IT change spend as % of revenue	🟢
Testing costs as % of total costs	🟡
Rate cards: Project Manager	🟡
Rate cards: Business Analyst	🟢
Rate cards: Architect	🟢

🔴 Lower performer 🟡 Median performer 🟢 Upper performer

Xoserve's IT spend on change is in line with selected energy and utility players, although additional change beyond Xoserve should be factored to represent the total cost of change.

Testing costs drives 20-50% of programmes budgets which is comparable to other central bodies showing similar testing spend of up to 60%.

Rate cards show general alignment with IT service providers however should be assessed with allocation of resources and time sheets for better assessment.

Change represents a key opportunities for efficiencies, driven by its material size in the cost base (approximately 50% in 2022/23), identified areas where improvements can be made, and the level of demand-led change but will require strong collaboration between stakeholders.

General and administration assessment

Assessment dashboard

Assessment	
Indirect costs as % of total costs	🟢
Average fully loaded employee cost	🟡
Finance function costs as % of total costs	🟡
Procurement function costs as % of total costs	🔴

🔴 Lower performer   🟡 Median performer   🟢 Upper performer

General and Administration forms only 3% of total spend, and ranks well below comparators explained by the lean operating model introduced in 2021 when the majority of the operating activities were outsourced to Correla.

Xoserve's average salaries rank towards the high end of comparators which is explained by it being a smaller organisation with a more senior role mix and a number of staff on defined benefit pensions.

Xoserve's finance and procurement functions benchmark below median performer but the teams are of a minimum effective scale given the activity set they need to perform.

Overall G&A is not suggested as a priority area to focus on for cost efficiency improvements.

Recommendations

Initiative	Description
Rationalise & optimise project spend	Improved prioritisation and execution of project change.
Optimise execution of fixed change	Enhance execution of standing change budget to ensure maximum throughput.
Optimise operations in collaboration with Correla	Pull contractual levers to ensure Value for Money delivery from Correla. Look for new opportunities to create win-win outcomes for Xoserve and Correla.
Enhance current capabilities	Enablers to support initiatives by building more maturity in the capabilities typically required by leading assurance and outsourced IT organisations.

The report identifies three areas for efficiency opportunities and one enabling requirement.

Precisely sizing the efficiency opportunity is difficult, as the volume and nature of change can vary and visibility into how change is delivered could be improved. However, in other typical assessments 5-15% savings are achievable with good confidence.

Overall, across total in scope spend, an opportunity of 2-8% was suggested.