



Commitments implementation

BT's progress report

NOVEMBER 2018

Foreword



The implementation of the Commitments starts a new chapter in the history of BT. I have been impressed by the pace and scope of change made across the company since the Commitments were made by BT to Ofcom in March 2017.

The results are clear to see – from a change in branding to the way Openreach are acting more independently and in collaboration with its customers. I have seen a difference in the way Openreach are doing business and I know our stakeholders have too. All this is even more impressive for having been achieved in parallel with Openreach’s delivery, supported by BT as its shareholder, of an unprecedented programme of investment in full fibre, currently running at a build rate of 13,000 premises each week.

I know there is always more to do. Our continued success requires focus on the right behaviours, being clear on how the arrangements are working in practice and making improvements when needed. I firmly believe that we have the right mindsets in our two organisations, and the right plans and governance to make this happen.

I believe it is now time to move our attention to the future, working across BT and Openreach, and crucially with our stakeholders across industry, government and the regulator, to ensure that we deliver the outcomes that matter to customers and society. I look forward to helping shape this next chapter.

A handwritten signature in blue ink, appearing to be 'C Ross', written over a white background.

Cathryn Ross
BT Group Director of Regulatory Affairs

November 2018

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Executive summary

We have successfully implemented the Commitments

1 October 2018 marked the final step in the creation of a more independent Openreach as BT completed the TUPE transfer of 31,000 employees from BT plc to Openreach Limited. Openreach Limited now has the delegated authority of the BT plc Board to set the strategy for Openreach. The Commitments, Governance Protocol and Agency and Services Agreement (ASA) are all now fully in force.

We have worked hard to get here. It was not just a case of addressing issues in relation to one of the country's largest pension schemes, and completing one of the largest TUPE transfers in UK history. We have also invested in system and process changes across BT Group and Openreach to make this happen and to make sure the trading, invoicing and banking arrangements all work.

At the same time, we reviewed how other BT structures were set up and how best to deliver on our Commitments. We decided to change the host of BT Northern Ireland Networks to Openreach, renaming it Openreach Northern Ireland. This allows for better alignment on the access/backhaul network strategy, simplifies governance, ensures efficient rebranding and further minimises risks of inappropriate information sharing.

Our people are increasingly living by the spirit of the Commitments

We have seen positive cultural shifts right across BT. Our people understand the Commitments and are determined to make them succeed. We want to ensure that our culture and behaviours work with both the letter and the spirit of the Commitments. We are consolidating these firm foundations and will continue to build on them for the future. To do this, we are taking forward a number of initiatives:

- **Organisational Design:** a team from HR is leading a review of the principles, scope and accountabilities under which BT people in the BT Corporate Functions are supplying services to Openreach or acting in a Parent Company capacity. The assessment is expected to be complete by the end of the calendar year.
- **Hearts and Minds:** our Ethics and Compliance team has commissioned a consultant to carry out behavioural research. A report is expected in November 2018 and it will help us understand our people's engagement, their perceptions and any residual concerns.
- **Independence and Oversight:** the Commitments Assurance Office (CAO) in BT and the Commitments Monitoring Office (CMO) in Openreach are undertaking reviews on behalf of the BT Compliance Committee (BTCC) and the Openreach Board Audit Risk and Compliance Committee (OBARCC). The reviews are looking at the engagement between senior BT and Openreach executives where BT has a Parent Company role. The aim is to identify what is working well, where further help may be beneficial and to assess if the current ways of working are striking a fair balance between independence and oversight. A report is expected by the end of the calendar year.

We know there is more to do

There are two areas where we still have more to do:

- **Financial Planning and Strategic Framework:** we have worked hard to clarify the process of setting the BT and Openreach respective Annual Operating Plan (AOP) and Medium Term Plan (MTP), and the interactions between BT and Openreach throughout that process. We recognise this goes to the heart of the greater strategic independence afforded to Openreach. We have developed and agreed with Openreach principles to underpin an operating model that respects Openreach's greater independence, while allowing BT to retain the economic control and Parent Company oversight it needs. We hope this will provide the desired transparency of the operation of the process, and in particular the role of the BT Investment Board (BTIB) within it, and of the nature of the interactions that take place between BT and Openreach. These principles will also form the basis of our strategic planning process as we articulate the operation of the BT Strategic Framework that Openreach shall take account of in setting Openreach's strategy. This work is underway.
- **Transparency:** We want Ofcom to have sufficient visibility of how BT and Openreach engage with each other on significant matters and for this to be transparent to external CPs. Following an initial review of how our Information Sharing Agreements are working in practice, we recognise that these had been drafted too broadly and we are amending them. This will ensure tighter controls and discipline on disclosures. In addition, the CAO will conduct deep dives into significant matters and share their findings with Ofcom. We will also share the output of the cultures and behaviours initiatives described above. Finally, we are engaging with the Openreach Monitoring Unit (OMU) so that they can observe key governance bodies in action.

The new arrangements are allowing Openreach to operate more independently

The changes made by BT and Openreach are already making a difference, and benefitting customers and the UK as a whole. As Openreach's progress report to Ofcom shows, the new governance arrangements have provided Openreach much greater control over its strategy, decisions about its business, the products it offers and the networks it operates. This greater independence can also be seen in the way Openreach interacts with CPs and the wider industry, for example, via industry consultation. This approach has enabled Openreach to take into account the interests of all its customers and develop offers such as the fibre volume discount. BT has respected this greater independence and has not interfered with Openreach's commercial strategy.

A successful, more independent Openreach is, of course, only part of ensuring a thriving, competitive and innovative communications sector. Getting the detail right on the wider policy and regulatory framework is also essential to achieve the Government's and Ofcom's vision for a gigabit UK economy, with increased network competition and investment across industry. We are committed to playing our part.

We stand ready to contribute to Ofcom's development of metrics to evaluate impacts

With the implementation phase complete, Ofcom plans to monitor Openreach's performance against a number of consumer and industry measures, in a series of "wider outcomes" reports to help them assess the overall success of the new model in addressing

the competition concern identified under their Digital Communications Review (DCR)¹. As part of this, we understand that Ofcom will detail some metrics in their second implementation report next year.

We are supportive of this exercise. It is important for all to ensure that the DCR is delivering to its stated objectives, so that action can be taken by the appropriate parties to address any shortfalls.

In our view, there are two categories of metrics relevant to this task:

- Those that confirm the extent to which Openreach and BT are delivering the Commitments; and
- Those that help assess the improvement in outcomes for consumers and businesses as sought by the DCR as a whole.

Both types of metrics are important. The first one tells us whether Openreach is operating with greater strategic independence, acting in the interests of all their customers and treating them equally. The second gives us a broader overview of the market and consumer outcomes to which BT activity is a vital contributor, but ultimately only one amongst many. It is crucial that we get the metrics for each category right, and we look forward to working with Ofcom and other stakeholders in their development.

¹ See para 4.8 "Progress on delivering a more independent Openreach", June 2017

1 Implementation is complete

1.1 Introduction

This report details our progress with the implementation of the Commitments. It covers the period since our last report at the end of March 2018 to end of October 2018. In the following sections we:

- Update on what we have done to conclude implementation (section 1);
- Set out how we are living up to the spirit and letter of the Commitments (section 2);
- Outline where we have more work to do, and our plans (section 3); and
- Provide initial thoughts on evaluating the impact of the Commitments in the wider context of the DCR.

1.2 Where are we now

We've come a long way since our last report. As of 1 October 2018, implementation is complete. There are four key areas to highlight.

First, the people who work for Openreach who were previously employed by BT plc are now employed by Openreach Limited.

Second, the Commitments, Governance Protocol Agency and Services Agreement and Northern Ireland Governance Protocol as amended are all now fully in force².

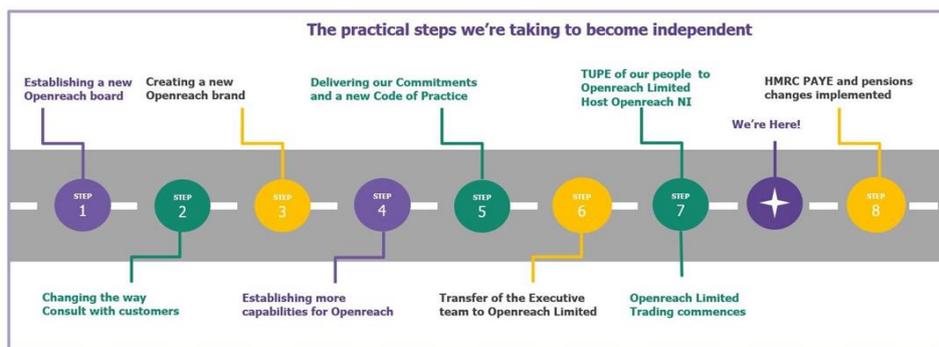
Third, Openreach has been given a new Delegation of Authority by the Board of BT plc which took effect on 1 October 2018 (revoking the previous authority given on 15 December 2017). This means Openreach Limited (through Openreach's Board of Directors) can undertake the following as per the contractual framework agreed between BT plc and Openreach Limited (the ASA):

- Set the strategy of Openreach (within BT's overall Strategic Framework);
- Oversee the performance of Openreach; and
- Manage and operate Openreach.

Finally, Openreach Limited is now undertaking the trading of Openreach's products and services on behalf of BT plc in accordance with the new framework.

The steps taken are shown in the table below. Step 8 shows the request Openreach received from HMRC regarding the need for a new PAYE reference for Openreach Limited. This will be implemented 1 April 2019 along with the pension changes resulting from the BT pension review.

² Copies can be found at <https://www.btplc.com/Thegroup/Ourcompany/Theboard/Boardcommittees/BTComplianceCommittee/Publications/index.htm>



1.3 What we have done to complete implementation

We delivered the final elements of the new governance arrangements:

The TUPE Transfer

Completing the transfer of the Openreach employees to Openreach Limited was not straightforward. Ofcom is aware of the transfer and pension challenges that BT faced. Whilst the BT Pension Scheme (BTPS) was open to further accrual, we needed to ensure that BT employees transferred to Openreach would have the same pension protection under the Crown Guarantee as they had whilst employed by BT. This would have required legislative and regulatory changes which were complex and led to substantial discussion with Government. BT separately carried out a review of its pension arrangements in the UK aiming to provide fair, flexible and affordable pension benefits for all our staff. Following consultation with our unions and employees, the BTPS was closed to future accrual on 30 June 2018 for the vast majority of active members. This has removed the need for further legislative or regulatory change in relation to Crown Guarantee protection.

BT's TUPE consultation started in July 2018, and ended in September 2018. We completed the transfer of Openreach people to Openreach Limited on 1 October 2018. This has been one of the largest TUPE transfers ever to take place in the UK, involving over 31,000 employees – requiring significant capital investments in payroll, finance and HR systems.

Commencement of trading

Openreach Limited started to trade on 1 October 2018. This is a significant and symbolic change: Openreach rather than BT will invoice customers directly sending out commercial documentation i.e. bills and invoices, in their own name. This will highlight to customers that Openreach Limited is a distinct, separate company, with their own brand and identity.

BT Group and Openreach have worked together to make this happen. This has involved complex system and process changes involving teams in Adastral Park, Budapest and India.

Openreach have implemented a separate HR system. This included replicating or changing more than 30 interfaces to support processes such as sick absence, payroll, procurement, engineering job allocation and planning. These changes required extensive communications and training to the business users and support organisation.

1.4 BT Northern Ireland Networks (BTNIN) has become Openreach Northern Ireland

BT agreed in the Commitments that BTNIN would treat all CPs equally, and provide transparency around key products and implementation plans for the access and backhaul networks in Northern Ireland.

In July 2018, following a review of BTNIN's governance arrangements, we decided it would be better if BTNIN were to be hosted by Openreach. The review was partly driven by BT's creation of its Enterprise division which combined the Wholesale & Ventures and Business & Public Sector lines of business. We also took note of the comments raised by Ofcom in its initial implementation review. Our goals were:

- To deliver the best we could for customers in Northern Ireland;
- To address the concerns that had been raised by Ofcom; and
- To have governance arrangements that would work as efficiently and effectively as possible.

On 1 October 2018 we made the change of host, from Enterprise to Openreach, and re-named BTNIN to "Openreach Northern Ireland".

Openreach Northern Ireland continues to be a virtually separate organisation, with the same local management team responsible for setting the overall strategy, network assets, finance and culture relating to BT's network in Northern Ireland, as well as external engagement. The Openreach Limited Board will not have responsibility for any element of Core Network strategy in Northern Ireland, which will remain fully within BT plc.

The changes we have made as a result of the move are:

1. **Structure:** The Openreach Northern Ireland team now reports into the Openreach MD for Service Delivery. Although Openreach Northern Ireland people remain BT plc employees.
2. **Financial planning:** Openreach Northern Ireland continues to develop its own AOP and MTP, which will feed into the Openreach AOP/MTP. Openreach Northern Ireland's financial envelope including capex is provided via the host organisation as well as any strategic investments, except in case of the core network, which will continue to be funded by BT Group.
3. **Information Sharing:** The move allows us to simplify information sharing and further mitigates the risk of inadvertent information sharing with a downstream organisation (e.g. Enterprise) and therefore addresses an area of external stakeholder concern.
4. **Commitments Compliance:** This will be the responsibility of the Openreach Business Integrity team, with oversight by the OBARCC and the BTCC (in relation to the core network and system separation) as appropriate.
5. **Day to day Operations:** These will be directed by the Openreach Northern Ireland Management Team and carried out by BT plc employees in the Openreach Northern Ireland organisation.

1.5 Satisfaction with the pre-conditions and release from the Undertakings

The table below shows how the three pre-conditions of the 10 March 2017 Notification needed for the Commitments to become effective have been met or waived by BT³.

On this basis, we wrote to Ofcom⁴ to proceed with the release of the Undertakings. On 31 October 2018 Ofcom confirmed that we had been released from the Undertakings⁵.

<i>Precondition</i>	<i>Status</i>
(a) Adaptation of the Crown Guarantee in respect of Openreach Limited's liabilities	These have in effect fallen away as a result of the closure of the BTPS to virtually all active members on 30 June 2018.
(b) BTPS Trustee's consent for Openreach Limited to become a participating employer in the scheme	Openreach Limited will not become a participating employer in the BTPS and there will be no need for legislative or regulatory change in relation to Crown Guarantee protection.
(c) Completion of consultation with the relevant employees and representatives ahead of a TUPE transfer	Fulfilled – The consultation closed in September and the BT plc Board agreed that consultation had been concluded to its satisfaction and approved the implementation of the governance arrangements following the DCR. The TUPE transfer of people to Openreach Limited took place 1 October 2018.

³ Paragraph 3, sub-paragraphs (a) to (c) of the March Notification:
<https://www.btplc.com/UKDigitalFuture/Agreed/NotificationtoOfcompursuanttoSection89CCommunicationsAct.pdf>

⁴ https://www.ofcom.org.uk/data/assets/pdf_file/0016/122146/bt-openreach-letter.pdf

⁵ https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/open-cases/cw_01206

2 Living up to our Commitments in spirit as well as letter

2.1 Three focus areas for the OMU

In its Final DCR Statement “Delivering a more independent Openreach” (July 2017⁶), Ofcom identified the three categories that its Openreach Monitoring Unit (OMU) would oversee:

Area 1: Ensuring successful implementation of the new model

As this report shows, we have now fully implemented the new governance model.

Area 2: Ensuring compliance with the governance arrangements

We believe that this is working well:

- We have introduced new simplified governance to ensure the effective management of the Commitments across BT;
- Our training, compliance and education programme is progressing as planned; and
- Our compliance engagement and monitoring is rigorous and effective.

Area 3: Ensuring Openreach acts independently and treats customers equally

We have focussed on ensuring the new governance model delivers independent decision making by Openreach. There are a number of initiatives looking at continuous improvement:

- Organisational Design review led by BT Group HR;
- Hearts and Minds research programme led by BT Ethics and Compliance Learning and Culture;
- Project Seesaw, led by the CAO and CMO for the BTCC and the OBARCC (looking at striking the right balance between Openreach’s greater independence and BT’s Parent Company obligations); and
- Other Culture and Behaviour initiatives – a new approach to breach classifications.

We provide more detail on each of these below.

2.2 Area 2: Governance

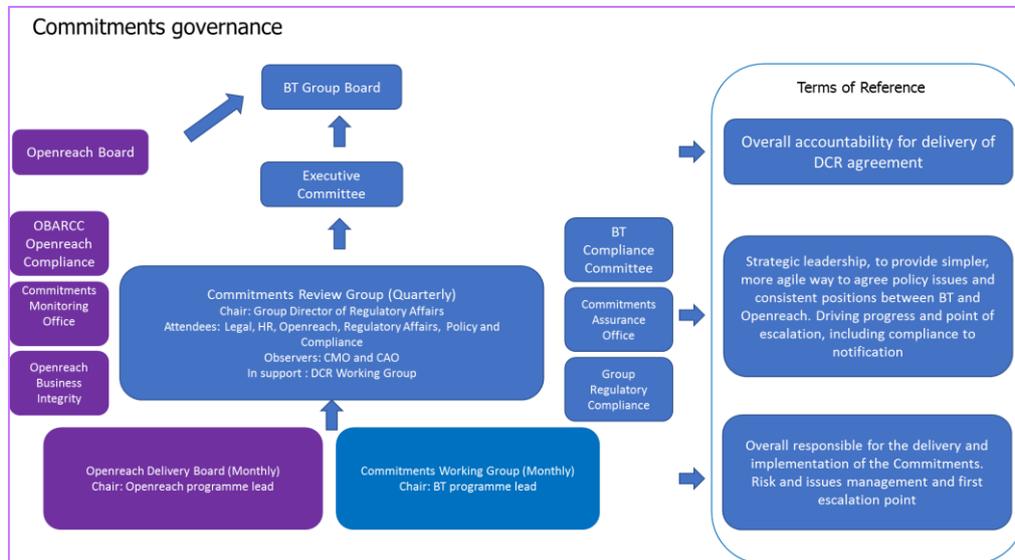
We have simplified the governance structure that manages the implementation of the Commitments. This approach is in line with the steps we are taking across BT to make accountability clearer and more defined.

We introduced a new Commitments Review Group in September 2018 replacing the DCR Policy Board. It is chaired by the Group Director of Regulatory Affairs and includes members from our HR, Legal, Regulatory Affairs, Policy and Compliance teams as well as Openreach. The CAO and CMO attend as observers. The Group will provide strategic leadership in the ongoing development, implementation and delivery of the

⁶ <https://www.ofcom.org.uk/consultations-and-statements/category-1/strengthening-openreaches-independence>

Commitments, coordinating activities across BT and ensuring alignment with Openreach on key issues such as Guidance Notes, variations of the Commitments, and so on.

The chart below summarises the revised governance framework across BT and Openreach.



2.3 Area 2: Compliance Training

Our training programmes remain on track. Targeted training and communications form a strong control and ensure our people understand and can demonstrate the behaviours set out in our “Living Up to Our Commitments” training. Progress is as follows:

Manager training

The intention is for all UK and “UK supporting”⁷ managers to complete the “Living up to our Commitments” e-learning course by 31 March 2019. We are making good progress; around 23,600 (76%) of BT people have completed the training and the remaining 7,300 are due to be trained by 31 March 2019.

A further 16,000 people have completed the e-learning course without having had it assigned to them. Many of these are team members requiring a Regulatory Compliance Marker as well as BT people who have voluntarily opted to learn more about our Commitments.

“High risk” training

Additional bespoke training continues to be provided to senior managers on a one to one basis and via interactive workshops for those that need to share information. We also carry out regular interactive reminders for those in higher risk teams.

Team member training

In addition, UK and UK supporting team members complete the Basic Compliance course, which has a section on the Commitments. So far 16,300 (33%) team members have completed the training and a further 33,600 are due to complete it between now and March 2020 (at the point they are due to refresh their training).

⁷ UK supporting managers are typically people who are employed outside the UK, but whose work relates to BT’s operations in the UK.

Disclosure training

Group Regulatory Compliance held knowledge calls on the Disclosure Process. 1,599 people attended and increased their awareness of the process. We continue to issue specific comms to the business including briefings on how to raise a potential issue.

Training effectiveness

We recognise that training only works if it is remembered. To check effectiveness, we started a “Teaser” programme in July 2018 testing the knowledge of those who have completed training and have Regulatory Compliance Markers. These are short reminder emails with a knowledge check. Around 23% of people responded to our last teaser (which is classed as high for this type of communication) and over 90% of respondents selected the right answers.

2.4 Area 2: Compliance Oversight – and Ofcom engagement

The CAO signed its Memorandum of Understanding with the OMU in February 2018⁸. Since then, the CAO has worked with the OMU and reported on BT’s compliance with the Commitments and Governance Protocol. This has been done formally (through the provision of the minutes of the BTCC’s meetings and breach reports) and via monthly meetings. In addition, the CAO has reviewed two complaints from industry stakeholders to the CMO under the “quick check” review process. In both instances there was no breach of the Commitments.

The BTCC has over the last six months been meeting bi-monthly to review: BT’s compliance with the Commitments and Governance Protocol; whether BT’s culture and behaviours are conducive to the desired outcomes; and, how we are doing in terms of delivering on the Commitments. BT’s Chairman Jan du Plessis attends.

The BTCC has looked closely at the operation of the information sharing controls and the financial planning processes and has co-sponsored (with the OBARCC) Project Seesaw. It has also reviewed a CAO deep dive review of how BT interacted with Openreach on changes to Openreach broadband prices (including introducing volume discounts). A report on the BTCC’s work has been published on the BTplc.com website⁹ and future reports will also be published.

In this review period the BTCC found four breaches of the Commitments, all trivial and related to information sharing controls. In each case Openreach information had been shared with individuals not entitled to see it – but the information was recalled before being read by the recipient. The BTCC also found three instances involving non-conformance with processes or policies (two trivial, and one serious). The trivial cases related to sharing of Openreach information to individuals who did not have Regulatory Compliance Markers. The serious non-conformance related to one individual who made inappropriate use of a system for personal reasons and has resulted in a discipline case. In the other cases, one to one briefings, training and guidance have been given to the individuals to avoid future repetition.

⁸<https://www.btplc.com/Thegroup/Ourcompany/Theboard/Boardcommittees/BTComplianceCommittee/Publications/MemorandumofUnderstanding.pdf>

⁹<https://www.btplc.com/Thegroup/Ourcompany/Theboard/Boardcommittees/BTComplianceCommittee/Publications/index.htm>

2.5 Area 3: Openreach independence

Ofcom stated in its final DCR statement that:

We expect to see Openreach and BT living by the ‘spirit’ of the Commitments, developing a culture that values independent decision-making rather than focussing too strongly on detailed legalistic interpretations of the precise wording of individual Commitments¹⁰.

The remainder of this section sets out the activities underway in BT to ensure that our people live by the spirit of the Commitments, have clarity of roles and that we are “getting the balance right” between greater Openreach independence and necessary Parent Company oversight.

Organisational Design Review – Led by BT Group HR

For the last year we have been changing the way the company works to enhance business performance. A key part of this is simplifying and improving decision-making across the business by establishing clearer accountability and personal ownership of decisions. As we introduce this model, we want to ensure that it is in line with the Commitments.

This work is looking to set out the principles, scope and accountabilities under which people in BT Corporate Functions supply services to Openreach or act in a Parent Company capacity. We expect to finalise the assessment by the end of the year.

Hearts and Minds research programme – Led by BT Ethics and Compliance team

The Hearts and Minds programme is the next phase of embedding the Commitments as part of our culture. This research will help us measure what our people think and feel about the Commitments, and make sure they have understood how to apply them in practice. This is particularly important as attitudes influence behaviour, which ultimately affect the success of us delivering – and sustaining – the Commitments.

To provide an independent view, we have engaged culture experts, “Walking The Talk”. They have run a series of focus groups and interviews with senior leaders to provide a baseline to identify what’s working well and where we may need to do more. They have also input to, and will take on board the findings of, a quantitative survey, for those in higher risk teams i.e. those in Parent Company and Supplier roles.

“Walking the Talk” is due to report their findings in early November 2018. We have asked that the report provides separate views for both Openreach and BT as well as, by exception, any distinction between those in Parent and Supplier roles should this arise.

Project Seesaw – Led by the CAO and the CMO

Project Seesaw is a review of interactions between Openreach and BT people in a Parent Company or Supplier role. The CAO and the CMO have interviewed key individuals in both Openreach and BT. For each organisation, there are three key questions:

- Is there a common understanding of roles and responsibilities between Openreach and BT;
- If yes, is this way of working documented; and

¹⁰ Delivering a more independent Openreach, Statement on releasing the BT Undertakings pursuant to section 154 Enterprise Act 2002 (July 2017) Paragraph 3.22.

- Has an appropriate balance been struck between greater Openreach independence and BT Parent Company oversight.

This is being established by the CAO and the CMO looking, in each case, at whether the role/responsibility split:

- Is different for Openreach compared with other CFUs (to evidence “greater independence”); and
- Is sufficient for BT, as sole shareholder (to evidence adequate control).

As well as looking at each Corporate Function in BT Group individually, the review will also consider whether the right balance has been struck in the round.

The BTCC received a preliminary update on progress in September 2018, and will receive a fuller update in November 2018 once the review is completed. Initial findings suggest processes are working well in most areas. However we have identified a few areas which would benefit from clearer roles and responsibilities and some where these are clear but need better documenting if good practice is to endure.

The BTCC noted that Openreach was already exhibiting greater independence in relation to the evolution of its portfolio, as evidenced by the development of Openreach’s fibre volume discount offer launched in August 2018.

Other Culture and Behaviour initiatives – a new approach to breach classifications

In September 2018, the BTCC decided to evolve its approach to classifying breaches and non-compliances with processes. It adopted the “4 box model” framework shown below.

The BTCC agreed that whilst all breaches and non-conformances matter, this model enables it to focus on the most serious cases i.e. those on the right hand side. This model also allows non-conformances to be seen as breaches of the spirit of the Commitments.

<p><u>Trivial Breach</u> - A breach of the letter of the Commitments, but not one that is likely to have caused any CP harm. For example, information sent in error to a person not-entitled to see it, and then recovered before it was seen.</p>	<p><u>Serious Breach</u> - A breach of the letter of the Commitments that could well have caused harm. For example, BT “interfering with/working on” the Openreach access or backhaul network.</p>
<p><u>Trivial Non-Conformance</u> - Not a breach of the letter of the Commitments, but individuals not correctly followed processes, but no real harm done. For example, an individual is entitled to see Openreach CI but forgets to turn on their Supplier marker before receiving it.</p>	<p><u>Serious Non-Conformance</u> - Not a breach of the letter of the Commitments, but individuals have done something that is seriously wrong, where harm might be done, or where the actions are not in the spirit of the Commitments. For example, single individuals act contrary to guidance provided to them in the Code of Practice.</p>

3 Future Action

Whilst we have made good progress, we recognise there is more we need to do. In particular, we will focus on:

- Agreeing the principles that underpin the operation of the financial planning processes and articulation of the BT Strategic Framework that Openreach shall take account of in setting Openreach's strategy;
- Ensuring sufficient transparency of the ways in which BT and Openreach engage with each other to evidence that Openreach is able to operate with greater independence, delivering equal treatment to its customers and acting in the interests of them all; and
- Completing the Openreach and the Openreach Northern Ireland rebranding programmes.

3.1 The operation of the financial planning processes

In its May 2018 implementation report, Ofcom expressed concern about BT's involvement in the development of Openreach's strategic plans. We understand that, critical to this, is the ability for Openreach to develop its AOP and MTP setting out its plans and objectives for the coming year, and its aims for future years. We also recognise the legitimate interest from external CPs in the operation of this process, and the need to be transparent about it.

The process we adopted in early 2018 was intended to align with the Governance Protocol, recognising the need for BT, as Parent, to fulfil its duties to its shareholders.

In addition, at the same time as operating the new process for the first time, BT Group had to review, and incorporate into the Group MTP, as appropriate, several major strategic matters affecting (or within) Openreach. These plans included: the impact of the final outcome of the Wholesale Local Access Review, the Business Connectivity Market Review appeal ruling, the FTTP plan, the modified G.Fast plan, and the fibre volume discount. These matters were in many cases still in progress when the customer facing units developed their financial plans and had a material financial impact on both Openreach and BT Group MTPs. For this reason, they required significant iterative working between Group and Openreach (with the Openreach Board briefed ahead of these interactions).

This was a learning experience for us. Since then, in light of the lessons learned, and in response to the concerns expressed by Ofcom, we reviewed the way the process worked. Over the summer we have worked closely with Openreach to take this review forward. We have agreed a set of **design principles** that we believe should underpin our articulation of how BT's and Openreach's financial planning processes will operate, and how, where and when Openreach will engage with BT in these processes. Those principles are:

<i>Principles</i>	<i>What this means in practice</i>
Greater operational and strategic independence of Openreach	Ensuring that what we do gives effect to the aim of the Commitments in securing greater independence for Openreach from BT Group, reflecting the different position of Openreach as compared to other CFUs, and enabling Openreach to treat all its customers equally (see below)
Appropriate Parent Company economic control and oversight by BT	Recognition that BT remains one economic enterprise with one set of shareholders in which interest BT must act and that finances need to be consolidated into one
Recognition of the important role of the Openreach board	Recognition of the role of the Openreach board in decision-making, provision of direction to and oversight of Openreach
Accountability	Clarity in roles, decision making and best practice governance. This includes recognition of the personal responsibility of everyone involved in the process for the effective and efficient working of the Commitments
Efficiency	Following a clear and agile process, capable of evolution and timely escalation routes
Simplicity	Acting in a way that avoids duplication and minimises complexity and gets things done
Equal treatment	Ensuring that what we do enables and encourages Openreach to address the needs of all Openreach customers equally
Transparency	Demonstrate we are acting and behaving in line with the Commitments, including to Ofcom and other CPs. This includes operation of process and controls in a way that is auditable and capable of assurance.

We have agreed these internally and presented and discussed both the approach and the detailed processes with Ofcom.

As part of this, we noted Ofcom's concerns that BT's newly established Investment Board (BTIB)¹¹ reviewed Openreach's investment proposals to be included in its strategic plans before the final draft plans were presented to the Openreach Board for approval. We want to clarify that the Openreach Board always has the opportunity to input, comment and review initial drafts of the business cases *before* they go to the BTIB. Further, the BTIB makes no decisions. Its role is to provide recommendations to support the BT Chief Executive with his decision-making on investment (capex and opex) budgets and cases. Its members are the BT Chief Financial Officer, the Chief Strategy and Transformation Officer and the Chief Technology and Information Officer. It replaced the Design Council (which

¹¹

<https://www.btplc.com/Thegroup/Ourcompany/Theboard/Boardcommittees/BTInvestmentBoard/index.htm>

included a wider set of representatives from the business) and is a simpler decision making process, limited to specific cases.

We recognise that it is critical to get this right. We want to be able to demonstrate transparently that BT is not interfering with Openreach's greater independence. The CAO's assurance work will also focus on the BTIB's business which involves Openreach and will report to the BTCC.

We have also developed **key controls** to assess whether these processes operate fully in line with the spirit of the Commitments. We recognise that the controls need to be:

- **Auditable** by the CAO and the CMO for the BTCC and the OBARCC: ensuring, through assurance review, that they have been applied and adhered to is the best way to show that the process is operating as intended; and
- **Capable of adaptation:** BT's processes, like those of any big company, will to a greater or lesser extent evolve from year to year. We are aiming to create a set of controls that will endure from year to year, notwithstanding any evolution of the planning process itself.

The Openreach Executive will develop their plans independently before submitting them to BT. The key controls that ensure this are:

- The Openreach Board will review and approve the Openreach Executive's proposed plans before submission to BT;
- At each key stage of the process the Openreach Board will be sighted on any changes to Openreach's plans that the Openreach Executive propose following any review by BT; and
- There will be escalation rights in relation to each of the key decisions taken by the BT Group Chief Financial Officer and Chief Executive.

We will continue to pay close attention to how the financial planning process is working in practice, and be open and transparent about it with Ofcom and other CPs. This is one of the areas the CAO will give high priority to as part of its assurance activity.

We are now in the process of articulating BT's Strategic Framework that Openreach shall take account of in setting Openreach's strategy. We will rely on the same principles that have underpinned our approach to the financial planning process to set out the operation of the strategic planning process. We will also continue our regular dialogue with Ofcom on this matter.

3.2 Transparency

We understand how important it is to reassure Ofcom and industry that we are delivering on our promises. We are doing this in a number of ways, including through increased transparency of our general practices, such as:

- We are already publishing on BTplc.com information on our governance, for example the terms of reference of BT's decision making bodies;
- We intend to publish on BTplc.com the internal guidance we are developing to support the principles-based approach that will underpin the operation of the BT Strategic Framework and the financial planning process as described above;
- BT and the CAO are attending industry meetings to share information on what we are doing;
- The CAO is planning to hold a stakeholder event to publicise what it does;

- We are publishing information on the activities of the BTCC on BTplc.com; and
- BT and the CAO are providing information to the OMU and Ofcom in the course of regular meetings.

We are also voluntarily providing detailed information to the OMU on how BT is working, in accordance with the Memorandum of Understanding between the OMU and the CAO. As well as the BTCC, the OMU will be observing the operation of key BT decision making bodies, such as the BTIB, and receive reports by the CAO into significant interactions between BT and Openreach.

Transparency is also supported through the operation of the information sharing controls, and in particular through the reports on the sharing of Significant Information. This is an area where we have identified a need to do more work. We cover this below.

Information Sharing Agreements & Disclosure Processes

The new information sharing controls introduced in April 2018 marked a step change from those during the Undertakings regime. Group Regulatory Compliance is working to ensure that the Information Sharing Agreements (ISAs) between Openreach and BT are working as expected. They are in the process of auditing all ISAs, with 29 audits in progress or completed so far. The audits have highlighted the need for changes to some ISAs to better reflect the activities being undertaken on behalf of Openreach. Additional assurance is being undertaken on individuals who have Parent Regulatory Compliance Markers (c.340 people).

The disclosure process was launched at the beginning of April 2018, with additional training during Q1 to ensure that there was full awareness in “high risk” teams of when to raise a disclosure record. The intent was that the ISA would capture “routine” sharing of information with the Disclosure Record capturing the non-routine sharing of Significant Information. 41 disclosures were logged in the period to June, when the first Disclosure Record report was prepared.

We are amending the ISAs to make sure that they are not too broad and make it clearer when non-routine information needs to be disclosed. Once this completes at the end of November, we will refresh the associated guidance to key members of staff.

In addition, to make sure we are capturing all sharing of Significant Information we are also reviewing papers submitted to BT’s main governance bodies which contain Openreach information and other interactions between BT and Openreach senior executives.

We believe that if we address these issues, it will be possible to produce Disclosure Record reports that (a) deliver the degree of transparency committed to and expected and (b) provide a clear picture of what the significant interactions between BT and Openreach are.

3.3 Branding of Openreach Northern Ireland

Openreach have accelerated their rebranding plan and we understand that they are making good progress (Openreach will cover this in more detail in their separate report).

We recognise that whilst the rebranding programme in Northern Ireland was on hold it was a source of concern for Ofcom. Now that the change of host has taken place, work is progressing with the rebranding programme in Northern Ireland, as set out below.

Clothing and Passes

Openreach Northern Ireland replaced all passes and clothing in October 2018 - a year earlier than the October 2019 committed completion date.

Vehicles

Openreach Northern Ireland is working to accelerate this with 150 vans (c25%) of the fleet being rebranded in the first 3 months (between October and December 2018) and the rest being completed by April 2020.

External rebrand activities

Openreach Northern Ireland has engaged external agencies to develop an advertising campaign for October and November 2018 to announce the Openreach brand in Northern Ireland (roughly a year earlier than committed). This includes social media, billboards, print etc.

4 Beyond Implementation: Measuring Outcomes

Now that the implementation phase of the Commitments is over, we expect Ofcom's focus to shift to (i) monitoring BT's and Openreach's conduct to assess the overall success of the new model and (ii) evaluating "wider outcomes" of the DCR as a whole (of which the Commitments is one part). As part of this, Ofcom plans to detail some metrics in their second implementation report next year. In this section we set out our initial thoughts on how the assessment of outcomes may be taken forward.

The measures designed to strengthen Openreach independence formed only one part of a broader package of regulatory work to support Ofcom's ten year vision for ensuring the quality and availability of communications services in the UK outlined in the DCR. In addition to the Commitments, other regulatory interventions were anticipated and have been concluded, or are underway. These aimed to ensure widespread availability of high quality fixed and mobile services, and the protections for consumers and business. Ofcom has continued work to improve consumer engagement, and has recently set out strategic vision for how regulation will evolve to support investment in full fibre networks.

As the Commitments bed down, and this broader regulatory work progresses, it is appropriate for Ofcom to measure outcomes, and we welcome the intention to specify and monitor key metrics and track progress over time. This will allow Ofcom, industry and other stakeholders to assess the extent to which the DCR is delivering on its intended aims. Where Ofcom believes measures are falling short of expectations it will then be possible to carry out an analysis of likely causes and, where appropriate, take corrective action.

If metrics are to support this ambition, it is vital that Ofcom, BT and other stakeholders have clarity of purpose, that we select the metrics that support this purpose, and that we have an accurate view of what the metrics are actually able to tell us. It will also be important to note what they cannot tell us. Establishing measures consistent with this framework must therefore be a collective priority.

In this context, our view is that metrics broadly fall into two categories:

- 1) Metrics that help us to corroborate the extent to which Openreach and BT are delivering to the Commitments made as part of the DCR.
- 2) Metrics that tell us how outcomes are improving for consumers and businesses that rely on communications services as sought by the DCR as a whole.

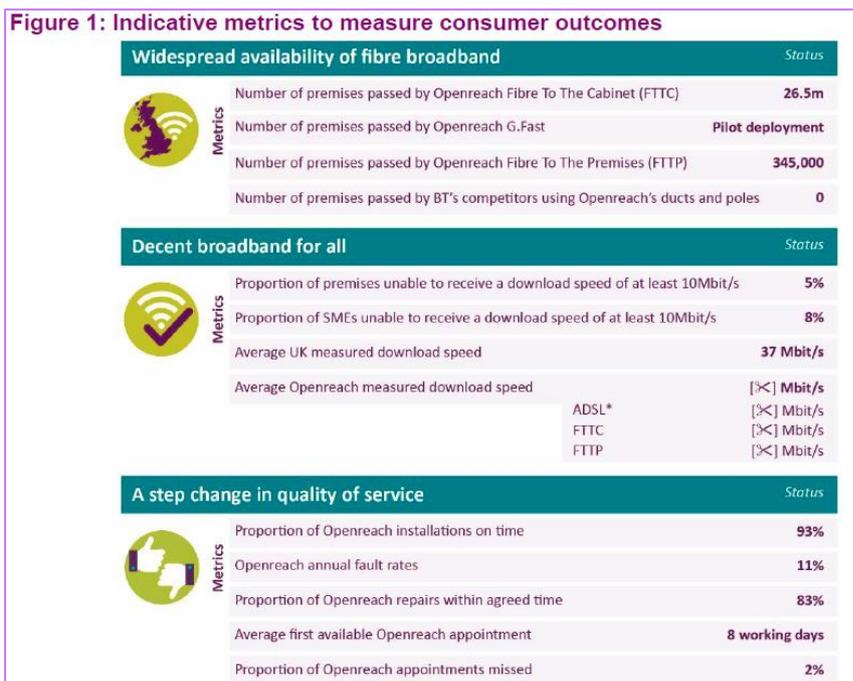
This distinction is key.

The first set of metrics will support engagement on BT's and Openreach's performance. Failure to meet the metrics will necessarily lead to a debate about what BT and Openreach may need to do to secure improvement.

By contrast, if metrics in the second category are showing insufficient improvement over time, we should consider what the possible causal factors are, and which ones are most likely responsible for particular poor outcomes. Understanding, in advance, what are the drivers for each of the positive outcomes we are measuring is crucial. For some of these, Openreach and BT will be significant players driving good outcomes, and we will do all that we can – consistent with good commercial practice – to support positive change.

But there will be many other determinants of outcomes for businesses and consumers, including other DCR-triggered regulatory changes that are not related to the Commitments, along with others in the public policy space and beyond.

By way of example, in its July 2017 statement (Delivering a more independent Openreach), Ofcom set out the following indicative measures which are derived from the scorecard used by Openreach management to track aspects of the company’s own performance:



We note that these metrics are not measures of delivery of the Commitments. They are clearly appropriate for Openreach to track and manage its performance. But Ofcom should not base an assessment of the Commitments on these and, although they might be relevant to the success of the broader DCR, they will not be the only relevant metrics.

This will require careful thought, including a sophisticated analysis of what the metrics can tell us, and of what we learn should we observe metrics that do not meet all of our expectations. For all metrics developed, Ofcom, BT and other stakeholders will need to be clear as to whether they are (i) a metric designed to evaluate BT’s and Openreach’s delivery of the Commitments; or (ii) a metric designed to understand the broader outcomes for consumers and businesses in the UK as per the wider DCR. Once this framework is in place, we stand ready to be held accountable against (i). And we will be happy to engage in the broader debate about how all stakeholders work together to deliver ever better outcomes for businesses and consumers in the communications sector (as measured by (ii)), as well as stand accountable for those aspects BT is responsible for, such as compliance with SMP obligations designed to deliver some of those wider objectives. We have started to consider this, and look forward to engaging with Ofcom and other stakeholders on this vital analysis over the coming weeks and months.

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