



# Strategy Development Process Guidance Note 3

October 2021

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# Background and Principles

# The Commitments strike a balance that we need to preserve

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The Commitments and the Governance Protocol strike a balance between greater Openreach independence and BT oversight. They:

- Address Ofcom’s concerns prior to 2017 that *“BT had retained control of Openreach’s decisions, while other telecoms companies have not been consulted sufficiently on investment plans that affect them”*
- Ensure that BT and its directors can fulfil their legal, regulatory and fiduciary duties so as to be able to continue to consolidate Openreach Limited within the BT Group plc. account.
- Recognise the important role of the Openreach Limited Board, with the Openreach directors having legal duties.

The BT Group Strategy Development Process, described in this document, ensures this balance is respected. Openreach is treated differently to other BT’s Customer Facing Units (CFUs).

- Openreach has its own uniquely created strategy development process that integrates with the framework of the BT Group Strategy Development Process
- Openreach’s separate Strategy Development Process and the way that this intersects with the BT Group Strategy Development Process provides Openreach with greater independence than other CFUs during the development stage of the Openreach strategy – both in the way that Openreach develops its strategy and in how it interacts with BT
- Uniquely, Openreach is able to escalate any disagreements to the BT Chief Executive and ultimately the BT Group plc. Board
- The BT Group Strategy Development Process respects BT Group’s authority to make final capital allocation decisions and its fiduciary duty to its shareholders

This Guidance Note is part of a series to support how BT and Openreach colleagues work under these governance arrangements.

# All Guidance Notes are based on the same Design Principles

Principles agreed between BT and Openreach	What this means in practice
Greater operational and strategic <b>independence</b> of Openreach	Ensuring that what we do gives effect to the aim of the Commitments in securing greater independence for Openreach from BT Group, treating Openreach differently where appropriate, and enabling Openreach to treat all its customers equally (see below)
Appropriate parent company <b>economic control and oversight</b> by BT	Recognition that BT is 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 <b>the important role of the Openreach board</b>	Recognition of the role of the Openreach board in decision-making, provision of direction to, and oversight of, Openreach
<b>Accountability</b>	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
<b>Efficiency</b>	Following a clear and agile process, capable of evolution and timely escalation routes
<b>Simplicity</b>	Acting in a way that avoids duplication, minimises complexity and gets things done
<b>Equal treatment</b>	Ensuring that what we do enables and encourages Openreach to address the needs of all Openreach customers equally
<b>Transparency</b>	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.

# Key Principles of the strategy relationship with Openreach

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- The Openreach Board is free to set the strategy for Openreach and to develop its own technology, network and product choices, taking into account the role and scope of Openreach in Guidance Note 7 and the BT Group Strategic Framework (Annex). Openreach's strategy is captured in the Annual Operating Plan (AOP) and Medium Term Plan (MTP).
- The Openreach Board reviews and agrees the strategy and key strategic questions, in advance of submission to BT Chief Executive, CFO and BT Group plc Board.
- If Openreach is exploring opportunities beyond the role and scope of Openreach as defined in Guidance Note 7, visibility should be provided to BT Group and BT Chief Executive has the ultimate decision on whether Openreach should proceed with the opportunity.
- BT Chief Executive, on the recommendation of the BT Group CFO may consider annually whether the role and scope of Openreach and the BT Group Strategic Framework needs to be refreshed.
- There is frequent engagement between Corporate Strategy and Openreach Strategy team to align on the process and status of strategic development items.
- The Openreach Strategy team may share working drafts of the Openreach strategy material at a working level with BT Group personnel on the basis that BT Group, acting in its parent role, only provide advice and process guidance to Openreach but do not seek to influence Openreach commercial policy nor direct the development of Openreach strategy.
- Where independent Group analysis is required (e.g., on a strategic decision which affects BT plc as a whole, including Openreach), BT Group strategy teams develop this as part of their parent company role. They also provide independent Group analysis to the BT nominee on the Openreach Board to support them to fulfil their role on the Openreach Board, if required.
- Where strategic choices (in-year or as part of the annual planning process) lead to changes in the MTP, then the change processes outline in GN4 – Financial Planning Processes need to be followed

# Strategy Development Process Overview

# BT's Strategic Development Process (SDP) is the annual planning cycle that facilitates alignment between unit strategies, Ambition 2030 KPIs and MTP

## SDP Roadmap

### SDP

Identify and address key strategic questions and drive into the MTP

Ensure A2030 KPIs reflect our ambition and unit strategies

Ensure the long-term strategic agenda is prioritised



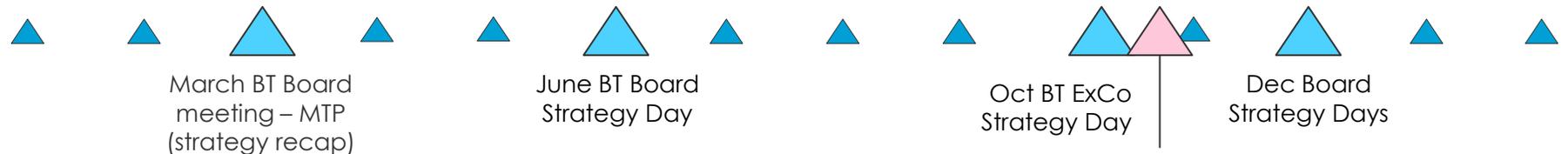
### MTP

Finalise and sign-off business and financial plan



### Board / ExCo

Review, debate and agree key strategic choices



OR strategy review with BT Chief Executive, BT CFO and BT Director of Corporate Strategy

# The Openreach Strategy Process is distinct but is synchronized with the Group Process

## 1 Refresh Strategy\*

Identify key 'open' strategic questions as part of review of internal / external impacts

Integrate strategic responses & key assumption as drive into next MTP

Ensure priorities & investments fully aligned to OR strategy



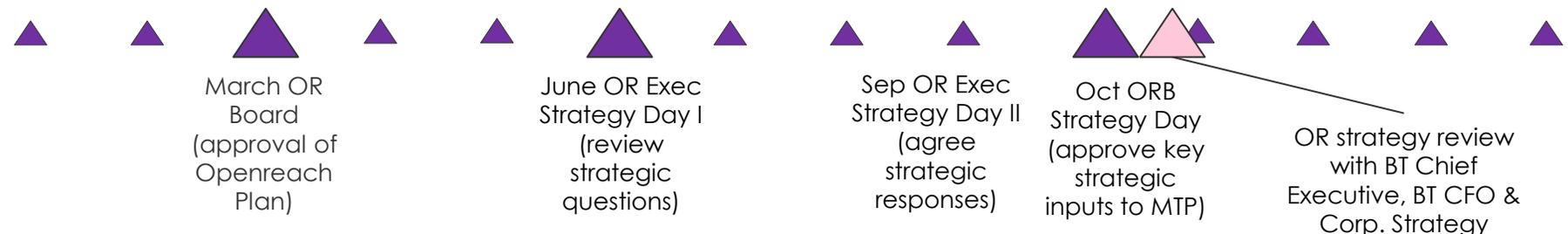
## 2 Integrate With MTP

Finalise and sign-off Openreach Plan (strategy & financial plan)



## Openreach Governance

Review and approve strategic priorities & underpinning investments



\* Each year Openreach seeks views from CPs and takes these into account when setting its strategy

# There are areas of difference for Openreach within the Group process

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## 1. Greater strategic independence:

- BT Group have the opportunity to challenge CFU's strategic priorities and choices, whereas it has less scope to challenge Openreach.
- BT Group's ability to review and intervene whilst Openreach is developing its key strategic choices is limited (e.g. if inconsistent with the role and scope of Openreach in Guidance Note 7 and the BT Group Strategic Framework or if required to comply with fiduciary duties)
- The Openreach Board formally approves the Openreach Strategy before submission to BT Group. Other CFUs will have an internal review process but without the formality.
- Openreach presents its strategy to BT Chief Executive and CFO, whereas other units present to the BT ExCo.
- The Openreach Board has the formally defined right to comment, amend and resubmit its strategy to the BT Group plc Board, if it is not approved first time round. Other CFUs do not have this opportunity.
- Group Corporate Strategy reviews and integrates Openreach's strategy (which will have been developed taking into account the role and scope of Openreach and BT Group Strategic Framework) into the wider BT Group strategy.

## 2. Escalation:

- If BT and Openreach cannot agree on Openreach's proposed strategy or on the introduction of a new product, this may be escalated by Openreach to board level and discussed between the Openreach Board and the BT Group plc Board. If there is an escalation, BT Group plc Board will make the final decision. This escalation route is not available to other CFUs.

# Process Key Controls

# Key Controls in the Strategy Development Process

Area	Objectives	Controls
Engagement	Ensure that BT plc as the parent company has sufficient opportunity to protect itself to fulfil its legal, regulatory and fiduciary duties.	1. During the development, and in advance of submission to BT Group, of the Strategy for Openreach, the BT Chief Executive and CFO <u>may be sighted</u> on working drafts of the strategy and the Openreach Strategy in limited circumstances (Commitment 10.2).
	Ensure BT Group isn't able to unduly influence Openreach's Commercial Policy and its ability to treat all customers equally.	2. In the event that BT Group provides any feedback on matters of Openreach Commercial Policy, this will be <u>transparently reported</u> to the Openreach Board.
	Ensure that the Openreach Board is able to properly oversee that Openreach has appropriate strategic and operational independence	3. When the Openreach Strategy lead has developed Openreach's Strategy, the Openreach Board will review and agree the strategy and the key strategic questions, in advance of submission to BT Group. This will be captured in the minutes of the Openreach Board session. 4. Formal engagement between Openreach and BT Group to discuss Openreach's strategy will be scheduled after the relevant engagement with and approval by the Openreach Board. 5. If, following submission to and review by BT Group of the Strategy for Openreach, the Openreach Strategy lead makes changes to it, the Openreach Board will review and agree the changes <u>in advance of final submission to BT Group</u> .
Information sharing	Ensure stakeholders can have confidence that downstream BT is not gaining an unfair advantage as a result of the engagement between BT Group and Openreach	6. Any information flows between Group Corporate Strategy and Openreach beyond those required for the Strategy Development process will be tracked and documented through a specific strategy <b>Project Disclosure</b> . If Commercial Information is provided by Openreach to BT Group people who are not on the Project Disclosure list, Openreach should make a separate Disclosure or ask that the recipient is added to the Project Disclosure group before the information is shared. All key transactions should be stored centrally for compliance and audit purposes.

Evidence will be sought by Commitments Assurance Office (CAO) and Commitments Monitoring Office (CMO) to confirm the above process and key controls, and the underlying objectives are respected.

# Annex – BT Group Strategic Framework

# BT Group Strategic Framework comprises of three pillars

