



# Commitments Stakeholder Event

28 March 2019

Cathryn Ross

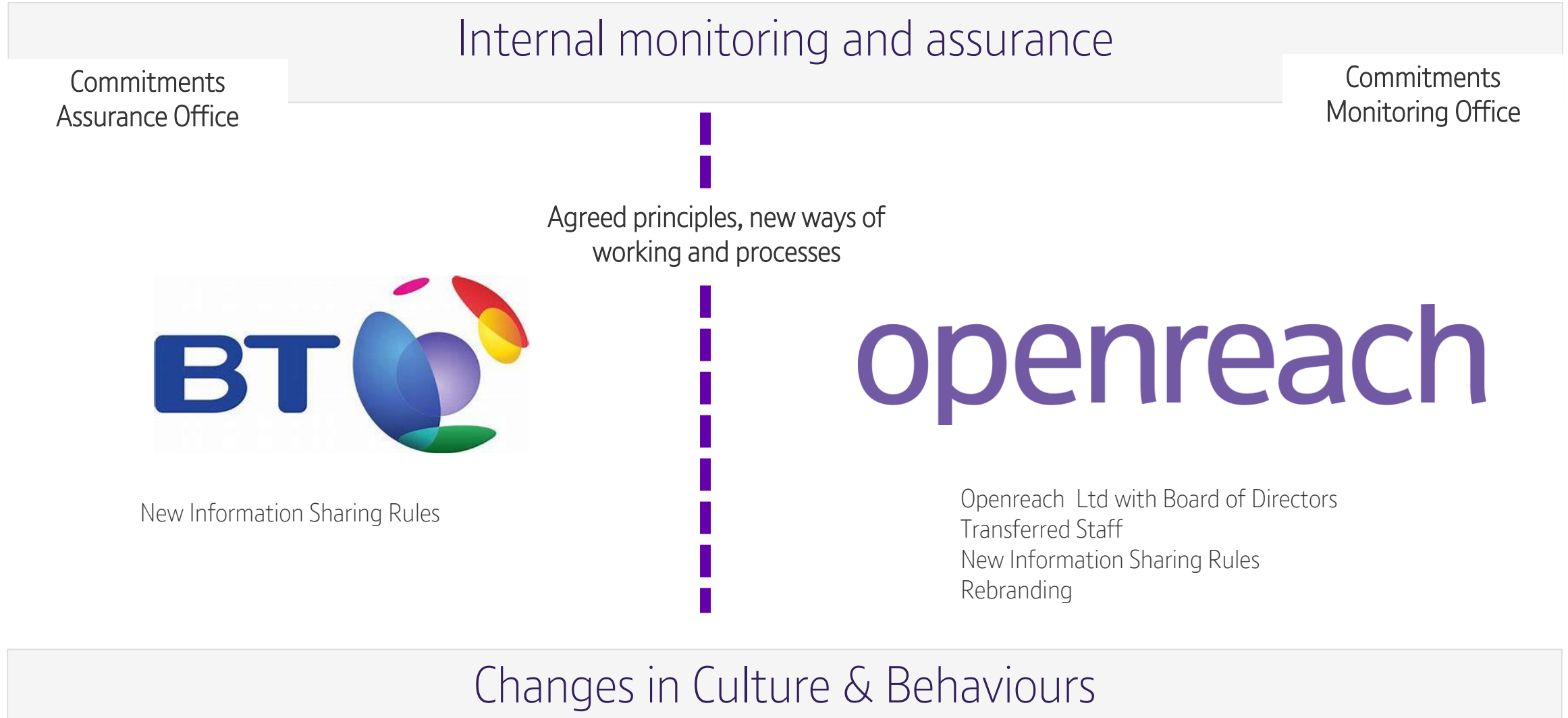
# Introduction

# Agenda

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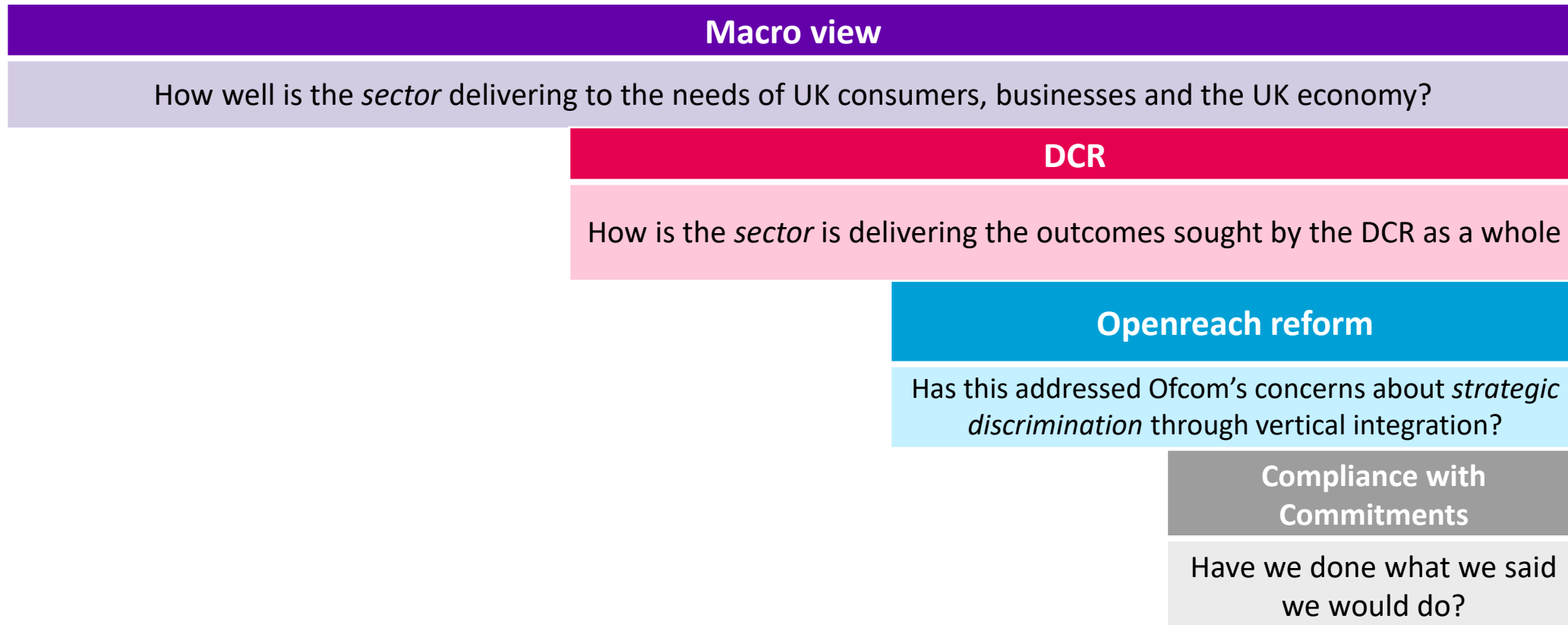
| Item                            | Lead                                                 | Time  |
|---------------------------------|------------------------------------------------------|-------|
| Introduction                    | Cathryn Ross                                         | 11:30 |
| Cultures and Behaviours         | Walking the Talk – Amanda Fajak and Danielle Spencer | 11:45 |
| Lunch                           |                                                      | 12:15 |
| Strategy Development Process    | Nick Lynch & Ben Messore                             | 12:45 |
| Financial Planning Process      | Ed Briggs & Matt Davies                              |       |
| Assurance: the role of the BTCC | Isabel Hudson                                        | 13:45 |
| Assurance in practice           | George Ritchie                                       | 14:00 |
| Next Steps and Close            | Cathryn Ross                                         | 14:25 |

# Openreach is more independent – things work differently now



# Openreach reform is one part of delivering DCR outcomes

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# QUESTIONS?

## *The Commitments: “Hearts & Minds” Research*



This research is based on many years of helping organisations to understand and change their cultures



# Scope of the research

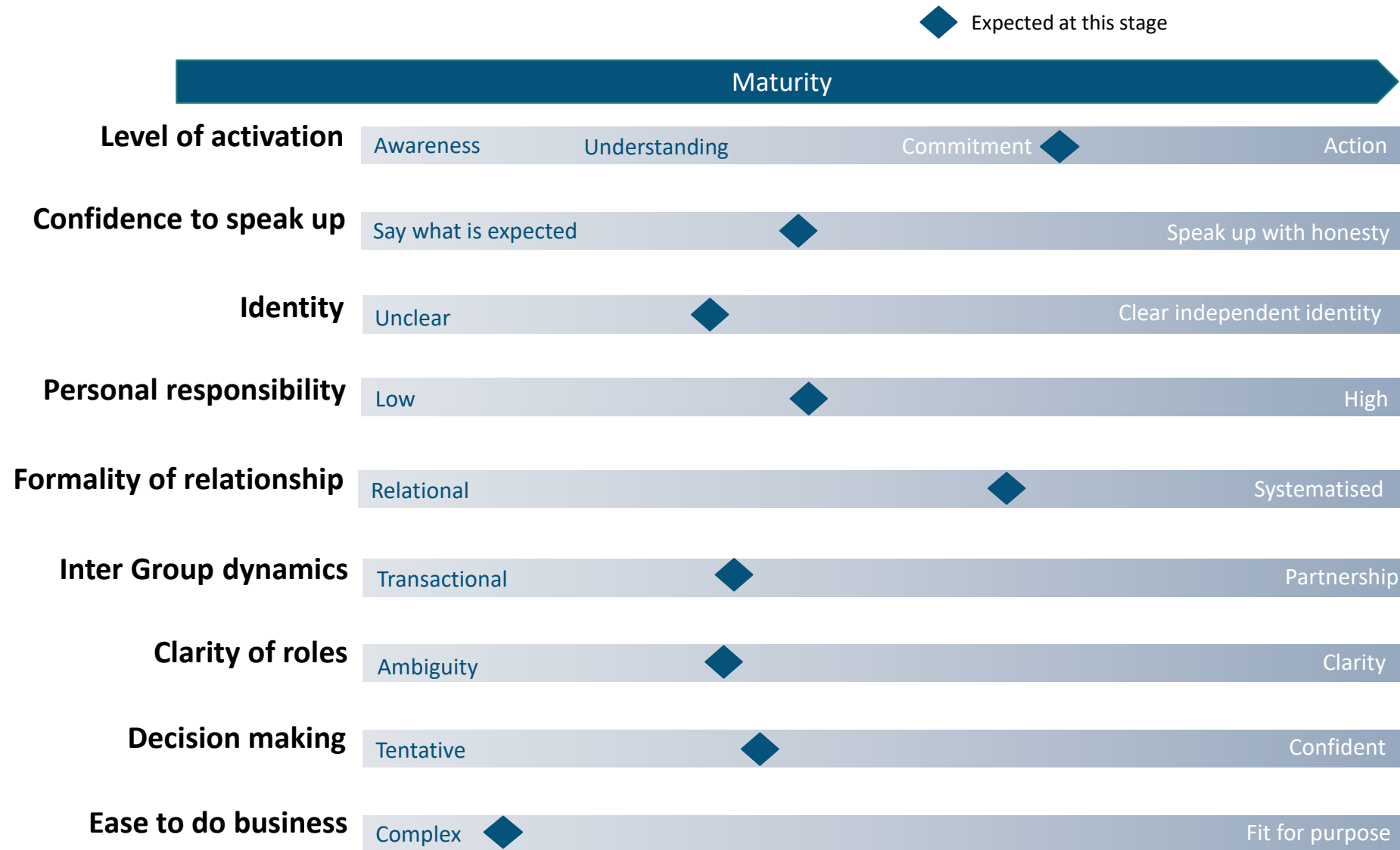
## Key research question:

Where are BT and Openreach in moving to a culture where they operate more independently of each other?

- How people think and feel about Our Commitments
- Focus on employees in roles at the intersection of BT and Openreach (*customers not in scope*)
- Deep dive into where the culture is now and to how move forward
- Study conducted September 2018



# Overview Maturity Analysis: Dimensions of healthy independence



# Key findings

**Where are BT and Openreach in moving to a culture where they operate more independently of each other?**

1



People in both BT and Openreach understand and are acting in line with the Commitments

Ahead of expectations

2



As expected, Openreach & BT's supplier / customer relationship is still maturing at this stage of the culture journey

In line with expectations

3



Some ambiguities in the model and some 'mixed messages' are creating confusion

In line with expectations

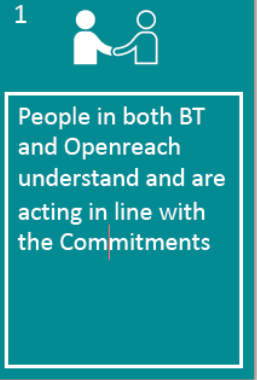
4



As new processes bed in, there is a 'cooling effect' on speed and agility

In line with expectations

# Overall impression: People in BT & Openreach are acting exactly\* as per the Commitments



Ahead of expectations

**High level of awareness** amongst those in high risk roles of 'what they can and can't do' with reported evidence of **sufficient training**, and avenues for **support and advice**

We observed a **high level of mutual understanding** of what are perceived as 'a sensible set of commitments'

Strong sense that people in both organisations are **genuinely trying to do the right thing** (for BT, Openreach, the industry and the UK)

People are following the Commitments in a constructive way not just because they have to, but **because they want to**

*\* While we see a clear intention to follow both the 'letter and the spirit' of the Commitments, Finding 1 relates more to the letter of the Commitments and Finding 3 describes the challenges currently being experienced in acting in line with the spirit of the Commitments.*



# The relationship between Openreach and the BT Parent is maturing

- In the early stages of separation, the BT Group closely managed its fiduciary responsibility to shareholders
- Openreach leaders **feel this relationship has evolved** and Openreach operates more in its own right
  - Openreach leaders acknowledge the **BT parent needed to see strength in the Openreach management team** and see **consistent performance delivery**
  - Openreach feel they have '**earned the right**' by delivering challenging numbers, KPIs, delivering on customer service, serving stakeholders
  - They describe the **tone of conversations has improved**, tension in quarterly operational reviews has reduced, conversations are longer term
  - A key symbol of change has been the **BT parent supporting investment decisions**

2



As expected, Openreach & BT's supplier / customer relationship is still maturing at this stage of the culture journey

In line with expectations



# The relationship between Openreach and BT CFUs is challenging

|                            | Openreach say ...                                                                                                                                                                                          | BT say ...                                                                                                                                                                                                               |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Access to commercial deals | <ul style="list-style-type: none"><li>• We have to have equivalence with everyone and are doing more for industry</li><li>• Formerly adversarial relationships with CPs are significantly better</li></ul> | <ul style="list-style-type: none"><li>• We are the biggest customer but are inherently disadvantaged</li></ul>                                                                                                           |
| Working with CPs           | <ul style="list-style-type: none"><li>• Openreach relationships with all CPs are maturing</li><li>• Non-BT CPs are more likely to take a partnership approach</li></ul>                                    | <ul style="list-style-type: none"><li>• The Commitments are improving the quality of discussions, we are more free to be a demanding customer</li><li>• We need to be more assertive in how we treat Openreach</li></ul> |

2



As expected, Openreach & BT's supplier / customer relationship is still maturing at this stage of the culture journey

In line with expectations

Insight drawn from Focus Groups and interviews



# Ambiguities in the model are challenging in day-to-day practice

## Lack of clarity

was the #2 theme in the images activity in focus groups, elicited by the two images below:



Some parts of the model are **unambiguous** and have become **well ingrained** (e.g. treat all CPs equally, information sharing, explicit reference to strategic direction, allocation of CapEx to agreed set of priorities)

However, the Commitments can't cover every eventuality and areas open to a **subjective interpretation**, the 'spirit' of the Commitments, can be a source of tension.

People have embraced the Commitments but are still developing sophistication in interpretation. (Historically BT has a strong compliance culture, **people are used to being told what to do**)

There is a **reliance on the authors/architects** of the agreement and other long standing relationships to smooth over tensions. (But we need to consider the agreement over a long distance of time and not be dependant on people in role.)

Focus groups say ... 'some joins are a ragged edge' and there is **appetite for more clarity**.

3



Some ambiguities in the model and some 'mixed messages' are creating confusion

In line with expectations



# Management of separation comes with it a significant administrative burden

Processes are described as **cumbersome (onerous)**, people feel the time, effort and **true costs** of the arrangement **are largely unquantified**

People at BT in particular describe a cooling effect on the organisation, **slowing down decisions**, speed, reducing agility and responsiveness

It is a **true indication of BT and Openreach's commitment** to make the model work as 'no business would willingly subject themselves to these conditions'

While not an immediate issue, too much bureaucracy and pressure on efficiency will erode good will and **could present a longer term risk to compliance**

It is also worth recognising that '**anything new is difficult**' and process refinements will no doubt occur with the benefit of a couple of annual cycles

4

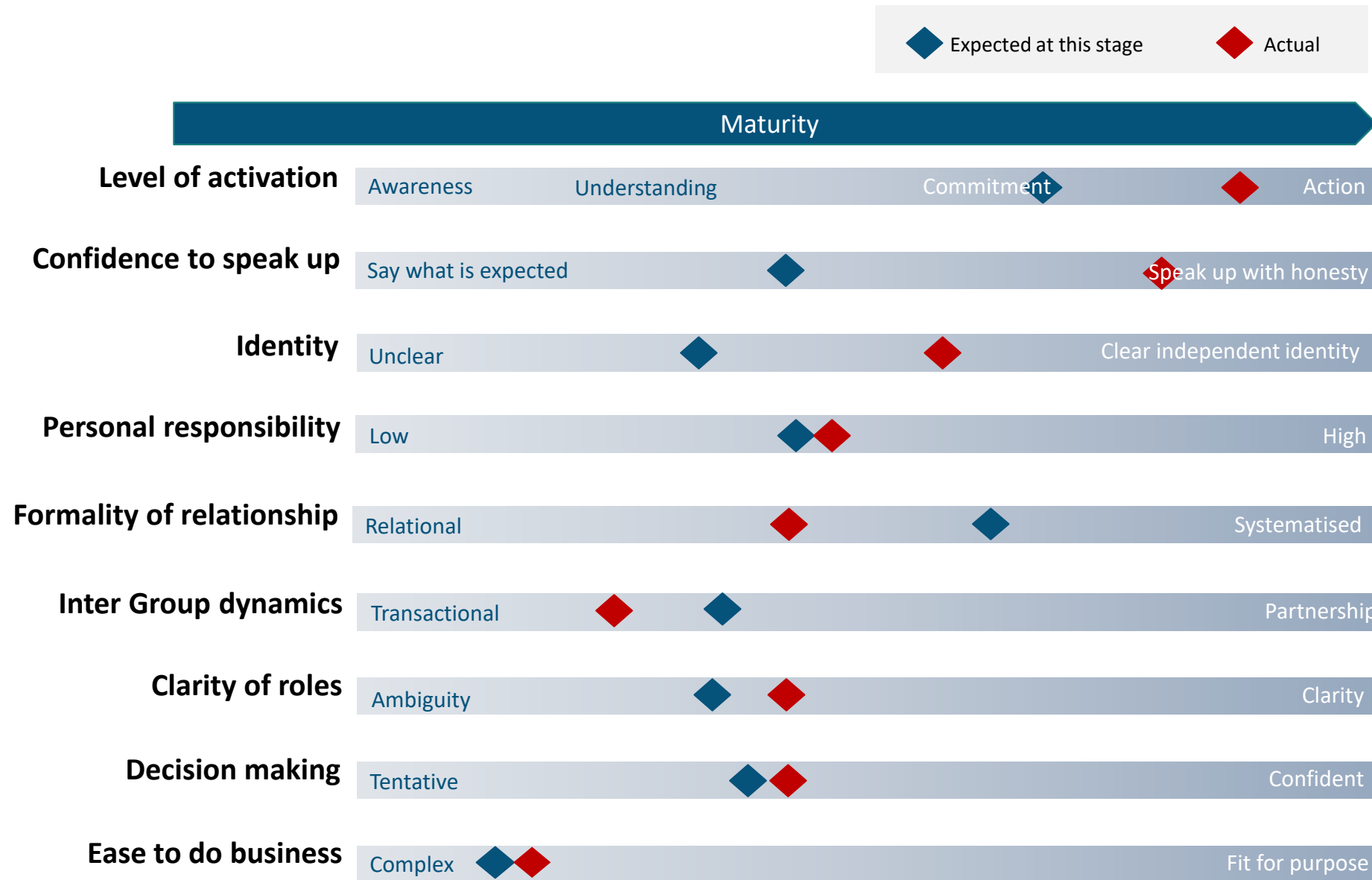


As new processes bed in, there is a 'cooling effect' on speed and agility

In line with expectations



# Overview Maturity Analysis: Dimensions of healthy independence.



# QUESTIONS?

# Lunch

# Agenda

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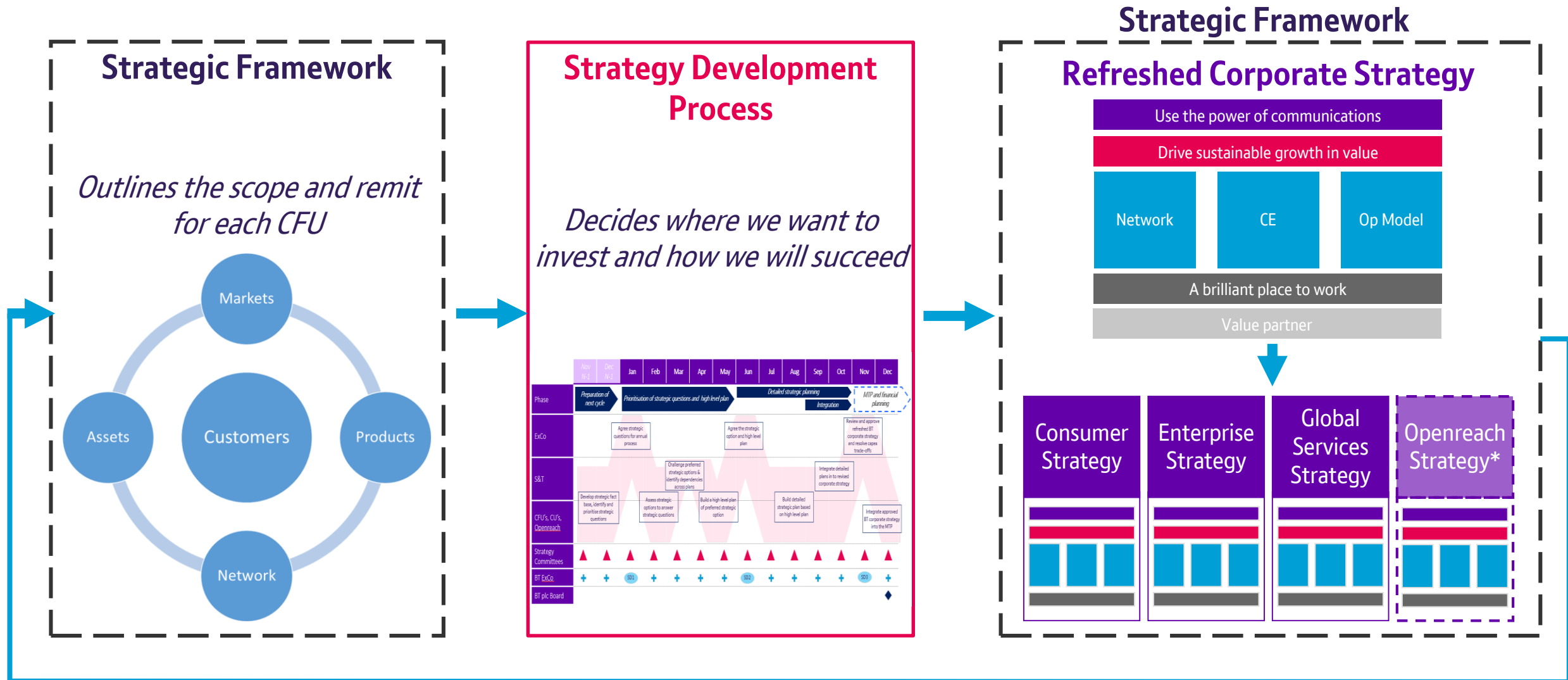
# BT-Openreach Guidance Notes are based on the same Design Principles

| Principles agreed between BT and Openreach                             | What this means in practice                                                                                                                                                                                                                               |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Greater <b>operational and strategic 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 <b>parent company economic control and oversight</b> 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.<br>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, 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.                                               |

# Nick Lynch and Ben Messori

## Strategy Development Process

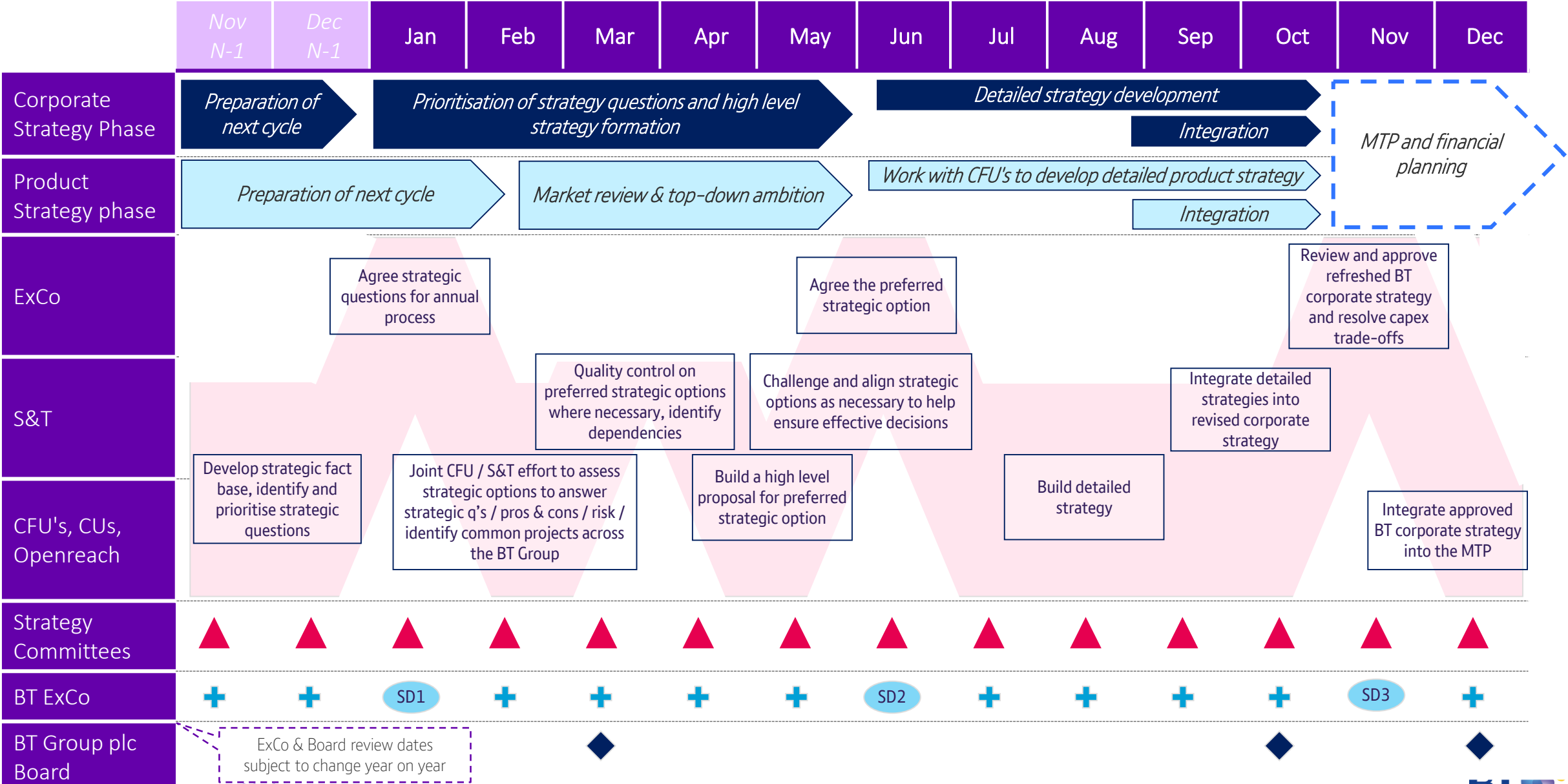
# The Corporate Strategy is refreshed annually through the Strategy Development Process



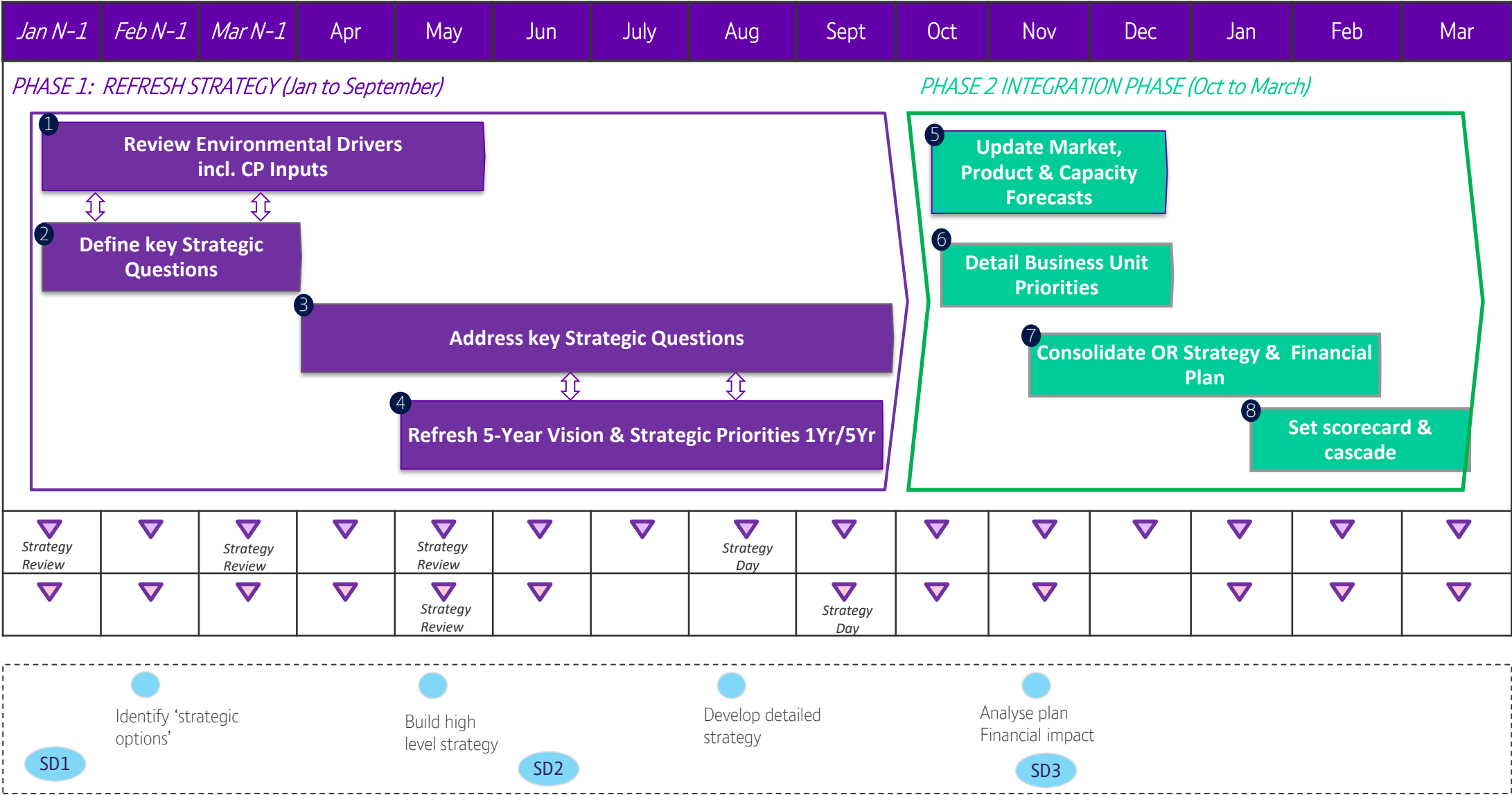
Annual Cycle

\* Openreach operates within the framework but with greater independence on their strategy

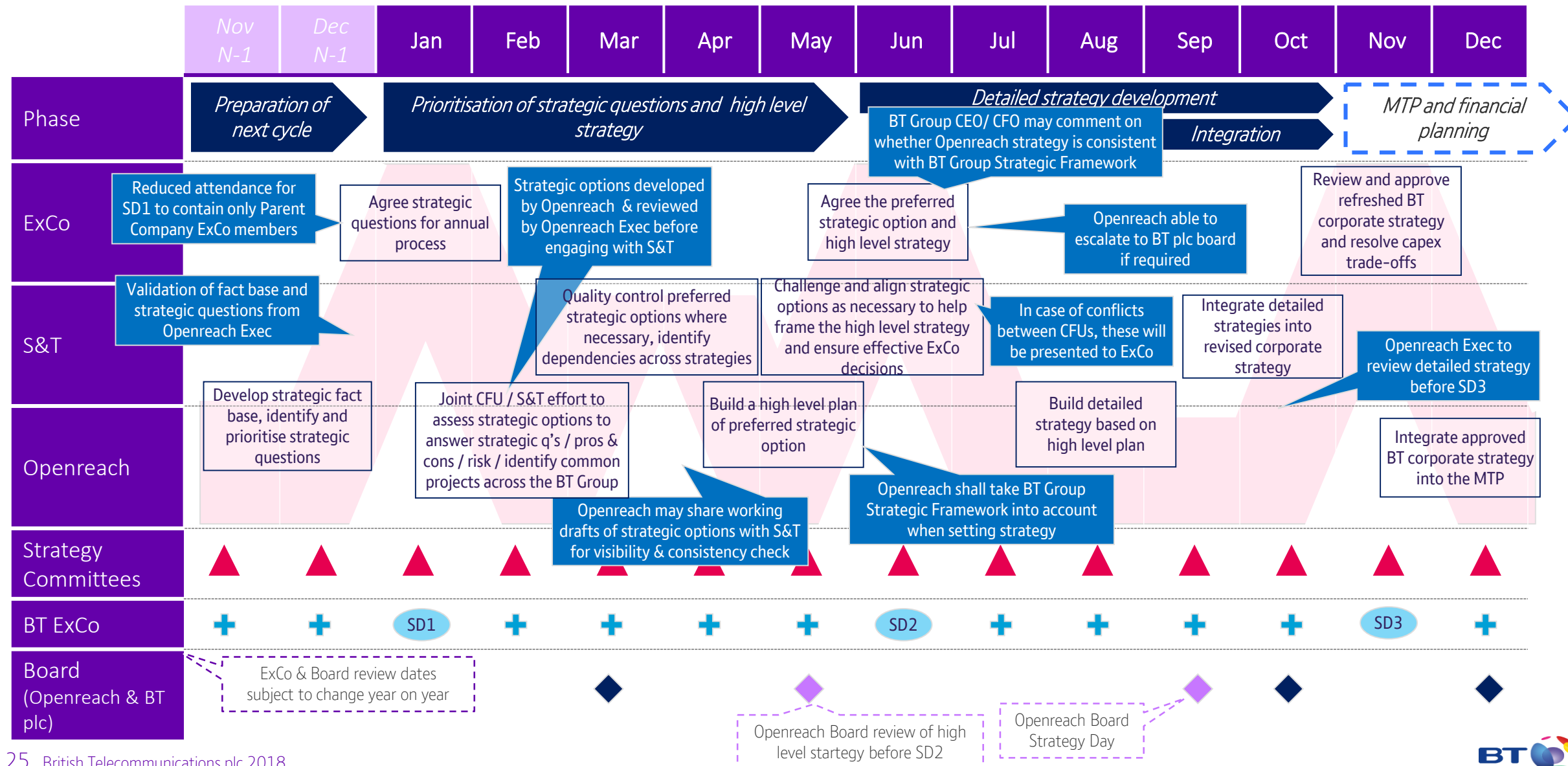
# Step by step view of steady state annual Strategy Development Process



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



# The need for independence of Openreach also translates into a number of specificities within the Group process



# How the Strategy Development process differs for Openreach

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## 1. Greater strategic independence:

- Group have the opportunity to challenge CFU's strategic priorities and choices, whereas it has less scope to challenge Openreach.
- BT's ability to review and intervene whilst Openreach is developing its key strategic choices is limited (e.g. if inconsistent with the 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.
- Group Corporate Strategy will review and integrate Openreach's strategy (which will have been developed taking the overall BT Strategic Framework into account) into the wider Group strategy.
- 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.

## 2. Escalation:

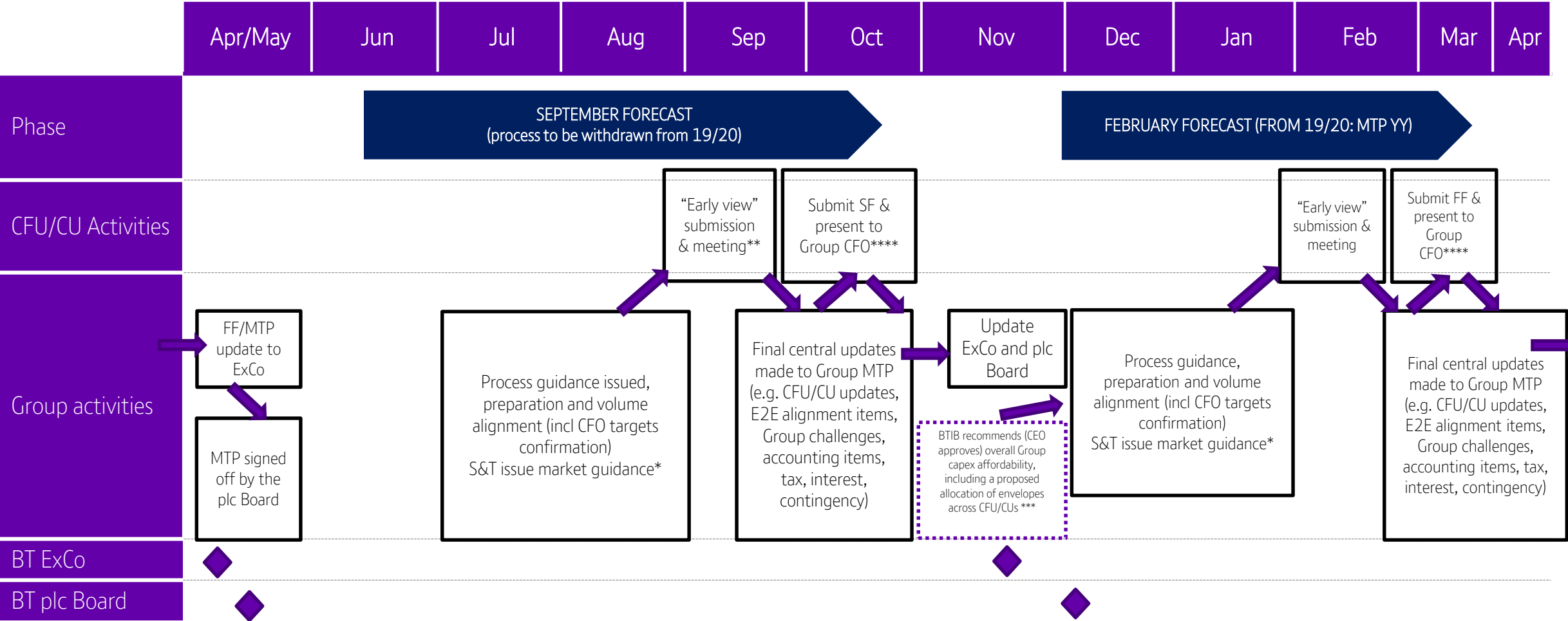
- If BT and Openreach cannot agree on Openreach's proposed strategy or on the introduction of a new product, the area of disagreement may be escalated by Openreach to board level and discussed between the Openreach Board and the BT Group plc Board. This escalation route is not available to CFUs. BT Group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

# QUESTIONS?

Ed Briggs and Matt Davies

Financial Planning Process

# High level Budget/MTP Process – BT Group

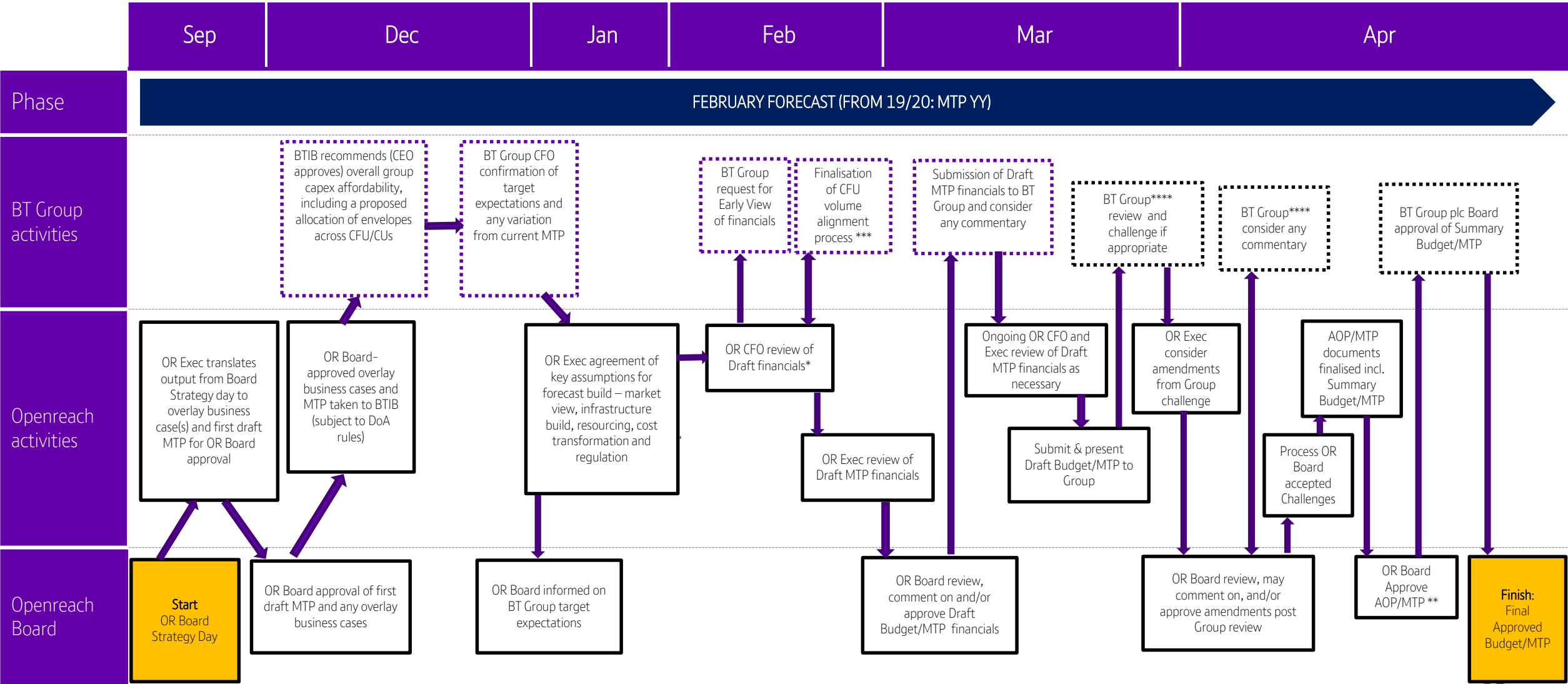


\*S&T market guidance process is in development (by Strategy & Transformation) for SF 18/19; was not part of the 17/18 process  
 \*\*“Early view” meeting only occurs if a unit submission requires early intervention or discussion  
 \*\*\*In FF 17/18, an additional Novator Capex meeting was held with each CFU to allocate additional Novator funding where required  
 \*\*\*\* Group Review sessions may also include Group HRD and Group CEO as appropriate

Also note: 1) In 17/18 we ran a strategic investment process (SIP) to identify and review key new business cases across the Group so that funding could be incorporated in the MTP where required. This process is not required in 18/19 due to a 5 year Capex plan being in place.  
 2) **We are removing the September Forecast process from 2019/20. There will therefore be only one performance comparator each year. We will implement high-level driver models to ensure that the impacts of current performance on later years are understood.**



# High level Budget/MTP Process – Openreach



\* Draft financials are prior to alignment of volume assumptions with RoBT  
\*\* Potential for Board to Board escalation  
\*\*\* Regular sharing of information (consistent with commitments)  
\*\*\*\* BT Group review sessions may also include Group HRD and Group CEO as appropriate



# How the AOP/MTP process differs for Openreach

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The process followed by Openreach is the same for all Customer Facing Units (CFUs) / Corporate Units (CUs) except for the following items:

## 1. Greater strategic independence:

- The Openreach Board formally approves, as the Openreach Limited legal entity Directors, the Openreach AOP/MTP and investment cases in advance of submission to BT Group. Other CFUs/CUs will have an internal review process but without the formality.
- The degree of intervention by BT Group in the AOP/MTP development stages is limited to certain parental conditions (Commitments 10.2 (a))

## 2. Greater transparency:

- Ofcom may ask to scrutinise the nature and reason for any subsequent changes following ORB approval of the AOP/MTP or investment cases. Other CFUs/CUs would not be subject to the same scrutiny.

## 3. Opportunity to challenge:

- The Openreach Board has the formally defined right to comment, amend and resubmit its AOP/MTP to the BT Group plc Board, if it is not approved first time round. Other CFU/CUs do not have this opportunity.

## 4. Information Protection:

- Sensitive Openreach information in the AOP/MTP and investment cases is only shared in limited circumstances and with limited people, in line with the Commitments on information sharing and disclosure policy.

# QUESTIONS?

Isabel Hudson

# Assurance – the role of the BTCC

# BT Compliance Committee



**Isabel Hudson (Chair)**

Chairman, National House-Building Council  
(NHBC)

**Mike Inglis**

Director, Advanced Micro Device (AMD)



**Jasmine Whitbread**

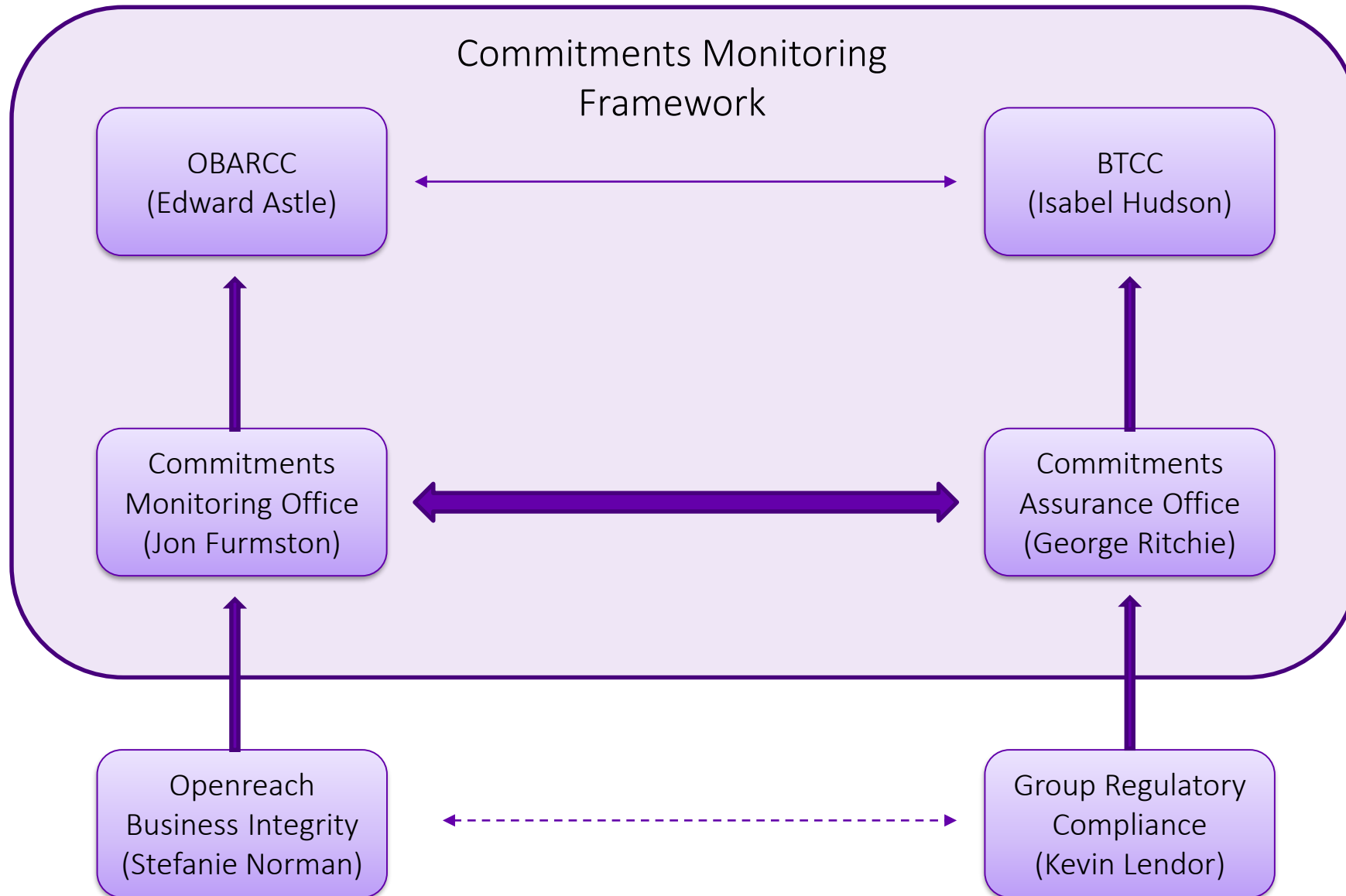
Chief Executive, London First

**Cathryn Ross**

Group Director, Regulatory Affairs, BT Group



# Key Relationships in the DCR monitoring framework



# The BTCC's role and remit

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## The BTCC reviews:

- a) BT's compliance with the Commitments and the Governance Protocol
- b) whether the culture in BT and the behaviours of BT people in relation to the Commitments and Governance Protocol are conducive to BT's compliance with them and to delivery of the Digital Communications Review (DCR) objectives
- c) the extent to which metrics published by Ofcom in relation to the DCR are being achieved and the objectives identified by Ofcom in the DCR Final Statement are being met

# BTCC – 18/19 Review

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## **Compliance Monitoring**

- Deep dive reviews
- Financial Planning Process assurance
- Compliance Dashboards
- Quick checks, complaints and breaches.

## **Cultures and Behaviours**

- BT Group and Openreach interworking - Project Seesaw
- A culture of operating more independently - Hearts and Minds

## **Outcomes**

- Feedback from BT, Openreach and the OMU
- Limited feedback from other stakeholders

George Ritchie

CAO: Assurance in practice

# BTCC and CAO Operating Model

**Vision** To ensure the DCR settlement is a success for all stakeholders: the basis of an enduring regulatory framework

**Purpose** To review BT's compliance with the letter & spirit of the DCR settlement and achievement of DCR outcomes

**Monitor**

- Legal compliance
- behaviours and culture,
- delivery of outcomes:

Regular engagement  
with key stakeholders

Deliver accountability,  
transparency & assurance:

Challenge & probe to  
understand issues and  
concerns



**Partners** We work closely with Group Regulatory Compliance and Openreach's CMO to deliver our programme

# Financial Planning Process Assurance (Stages 1 & 2)

# Assurance: Objectives and Approach

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## Key focus on the design principles

- Greater Openreach operational and strategic independence;
- Appropriate BT parent company economic control and oversight;
- The Openreach Board's role;
- Accountability

## CAO and CMO joint assurance plan

- assure each of the key compliance controls;
- deliver the documentary evidence to Ofcom;
- assess key stakeholders perspective on the process

## Assurance framework stages:

- September forecast;
- Annual Investment (Capex) review,
- creation of the February forecast (“the Draft AOP and Draft MTP”);
- negotiations between the submission of the Draft AOP and Draft MTP and finalisation.

# Assurance Process and Findings – MTP 19 Stages 1 & 2

| Assurance                                                                                                                                                                                                                                   | Findings                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Process monitoring – building the timeline</p> <ul style="list-style-type: none"> <li>Near real time monitoring of the process</li> <li>Detailed chronology of key BT and Openreach activities</li> </ul>                                | <ul style="list-style-type: none"> <li>The process followed the Guidance Note</li> </ul>                                                                |
| <p>Adherence to Key Compliance Controls</p> <ul style="list-style-type: none"> <li>Review of adherence to key compliance controls</li> <li>Predominantly “after the event” assessment</li> </ul>                                            | <ul style="list-style-type: none"> <li>Key controls adhered to</li> <li>Some concerns over use of disclosure records</li> </ul>                         |
| <p>Engagement of the BT Investment Board</p> <ul style="list-style-type: none"> <li>BTIB not involved in September forecast</li> <li>CAO Director attended two key BTIB meetings in the course of the annual investment review</li> </ul>   | <ul style="list-style-type: none"> <li>Operated at a Group strategic level</li> <li>No signs of seeking to inappropriately control Openreach</li> </ul> |
| <p>Key Documents</p> <ul style="list-style-type: none"> <li>Including all core documents, Board papers and CAO’s email review</li> <li>Broader review than requested by Openreach,</li> </ul>                                               | <ul style="list-style-type: none"> <li>No evidence of directional control of Openreach</li> <li>Exchanges vs process focussed</li> </ul>                |
| <p>Stakeholder perceptions</p> <ul style="list-style-type: none"> <li>Feedback from Openreach Chairman and BT Finance</li> </ul>                                                                                                            | <ul style="list-style-type: none"> <li>Generally positive</li> <li>But concern over communications of targets to Openreach Board</li> </ul>             |
| <p>Levels of capex sought and allocated</p> <ul style="list-style-type: none"> <li>Review of changes since MTP18 agreed and drivers for them</li> <li>Review of proposals for MTP19 and drivers of change in Openreach proposals</li> </ul> | <ul style="list-style-type: none"> <li>Drivers understood</li> <li>Significant additional in-year capex funding</li> </ul>                              |

# **Project SeeSaw:** a review of relationships between BT Group and Openreach corporate functions

## **What did we do?**

## **What did we find?**

# Project Seesaw – Our approach

## What?

- A joint CMO/CAO project to review relationships between BT corporate functions and respective Openreach teams

## How?

- Identification of corporate functions and key processes performed within that function
- Standard questionnaire template developed
- CMO led interviews with Openreach managers;
- CAO led interviews with the corresponding BT managers
- CAO and CMO correlated outputs

# Project Seesaw – Overview of November 2018 Findings

## Agreed ways of working?

- Agreed way of working in all areas
- Work done in key areas such as Financial Planning and Strategy to clarify process
- CMO/CAO ongoing review to monitor progress

## Documentation/Process Records?

- More work needed to formalise and document interworking and responsibilities in some areas
- CMO/CAO will follow up with these teams during Q1 2019/20 to assess progress

## Greater Openreach Independence?

- Many functions reported a distinctive and different way of working in Openreach compared to other BT CFUs
- Several instances of greater Openreach independence compared to other CFUs
- Other areas reported all CFUs had a high degree of autonomy, with each CFU able to make the right decisions for their business area

## Right balance struck?

- Broadly interviewees felt the right balance has been struck
- CAO & CMO will follow up with key areas during Q4 2018/19 and with other areas during Q1 2019/20 to assess whether newly agreed ways of working are “bedding in” and/or process on formalising and documenting agreed ways of working

# QUESTIONS?

Cathryn Ross

Next Steps & Close