



Financial Planning Processes Guidance Note 4

October 2021

Contents

1. Background & Principles
2. Financial Planning Process
3. Process Key Controls

Background and Principles

Background

The DCR arrangements strike a balance between greater Openreach independence and BT oversight

- Address Ofcom's concerns 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 Openreach has greater strategic and operational independence, whilst recognising that BT must ultimately have and be able to demonstrate economic control over Openreach
- Respect the need of BT and its directors to exercise legal, regulatory and fiduciary duties, and continue to be able to consolidate Openreach Limited within the BT Group plc. accounts
- Recognise the importance of the role of the Openreach Limited Board, with the Openreach directors having legal duties

The Financial Planning Process needs to respect this balance

- Openreach does not have its own uniquely created planning process, and operates within the framework of the BT Group Planning Process
- However, the process provides Openreach with more independence than other Customer Facing Units (CFUs) in the development stage of the MTP/AOP – both in planning and in internal interactions
- Openreach is also able to escalate any disagreements to the BT Chief Executive and ultimately the BT Board
- The process respects BT Group's authority to make final capital allocation decisions and its fiduciary duty to its shareholders

Our overall objectives

1. Make the DCR a success
2. Respect the greater strategic and operational independence afforded to Openreach
3. Respect that BT Group remains a consolidated Group
4. Ensure that BT and Openreach continue to work together efficiently

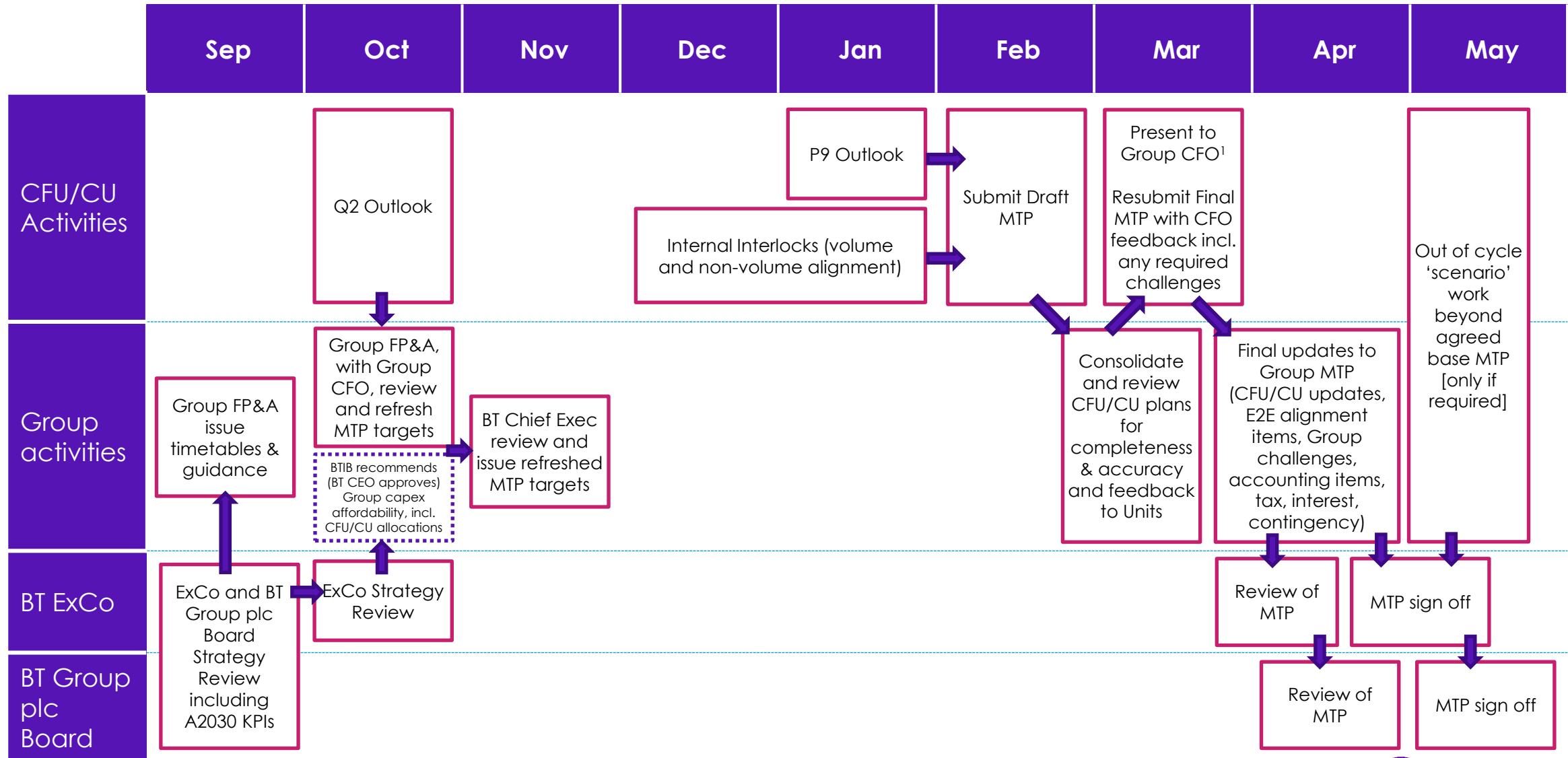
All Guidance Notes are based on the same Design Principles

Principles agreed between BT and Openreach	What this means in practice
Greater operational and strategic 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, treating Openreach differently where appropriate, and enabling Openreach to treat all its customers equally (see below).
Appropriate parent company economic control and oversight 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 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, 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

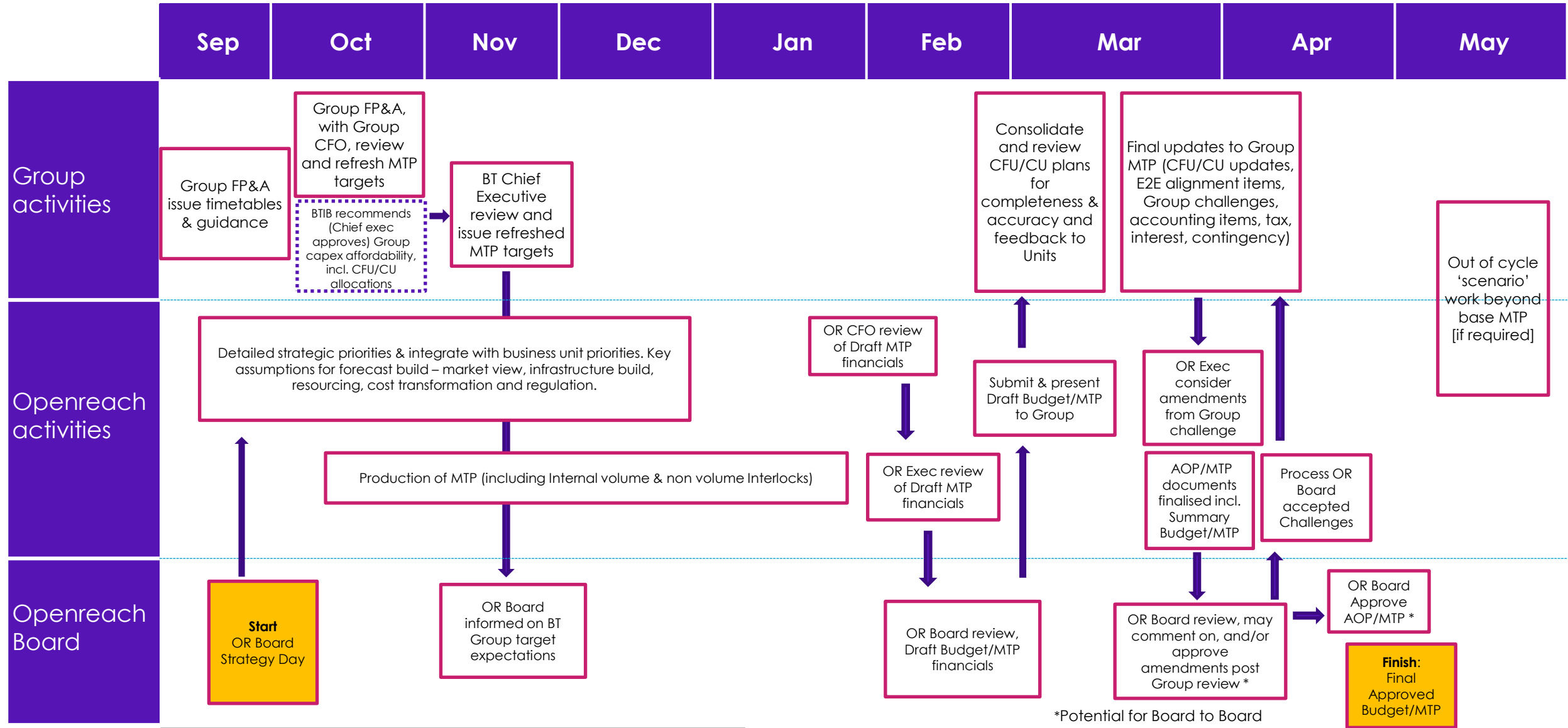
Financial Planning Process

High level Budget/MTP Process – BT Group

Year 1 of the plan is referred to as "Budget" in BT Group and "AOP" in Openreach



High level Budget/MTP Process – Openreach



MTP - is a five year financial forecast
 Budget - refers to first year financials in the MTP
 AOP - is Openreach's annual strategy document incorporating MTP financials

How the AOP/MTP process differs for Openreach versus BT CFUs/CUs

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.

Process Key Controls

Key Controls in the Financial Planning Process (1)

Area	Objectives	Controls
Engagement	Ensure BT Group isn't able to unduly influence Openreach's Commercial Policy and its ability to treat all customers equally.	- During the development, and in advance of submission to BT Group, of the Draft Annual Operating Plan (AOP) and the Draft Medium Term Plan (MTP) or proposed investment cases, the Openreach Executive may share working drafts with BT Group personnel at working level: - to allow alignment of assumptions across the BT Group and to enable other consistency checks to be undertaken; and - on the basis that BT Group will only provide advice and process guidance to Openreach but <u>will not seek to influence</u> Openreach Commercial Policy.
	Ensure that BT plc as the parent company has sufficient opportunity to protect itself to fulfil its legal, regulatory and fiduciary duties.	- During the development, and in advance of submission to BT Group, of the Draft AOP and the Draft MTP, the BT Group Chief Executive and Chief Financial Officer <u>may be sighted</u> on working drafts of the Draft AOP and the Draft MTP and the Openreach Strategy in limited circumstances (Commitment 10(a)). In the event that any feedback is provided on matters of Commercial Policy, this will be <u>transparently reported</u> to the Openreach Board. During the development it is expected that Openreach would be the one to initiate any senior dialogue, but recognising that BT may need to do so to fulfil its responsibilities as a publicly listed consolidated group of companies and to ensure best practice governance (see Commitment 10(2)(a)). - In preparing the draft AOP and MTP Openreach will take into account the Revenue/EBITDA and capex targets set by Group and flag the reasons for any variance to allow the Group to manage its overall capex envelope.
	Ensure that the Openreach Board is able to properly oversee that Openreach has appropriate strategic and operational independence	- When the Openreach Executive has developed Openreach's Draft AOP and Draft MTP, the Openreach Board will review and agree them, in advance of submission to BT Group. - If, following submission to and review by BT Group of the Draft AOP and the Draft MTP or any investment case, the Openreach Executive makes changes to them, the Openreach Board will review and agree the changes <u>in advance of final submission to BT Group</u>. - In advance of any BT Group review (such as the BT Investment Board) that may be necessary to secure investment funding, the Openreach Board will agree any proposed investment cases that will require BT Group approval.

Key Controls in the Financial Planning Process (2)

Area	Objectives	Controls
Engagement	Ensure clarity of the roles of BT Group and Openreach in investment cases and that there are appropriate escalation rights that will protect Openreach's greater strategic and operational independence	7. In relation to Openreach investment cases submitted to BT to secure investment funding, the role of the BT Investment Board is to review the proposal and support the BT Chief Financial Officer and Chief Technology Officer in making their recommendation to the BT Chief Executive: • If the Openreach Board is dissatisfied with a recommendation of the BT Chief Financial Officer and/or Chief Technology Officer, it may raise that matter with the BT Chief Executive. • If the Openreach Board is dissatisfied with a decision of the BT Chief Executive, it may raise the matter with the BT Group plc Chairman (or the BT Group plc Board) if necessary.
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	8. Information flows between BT Group and Openreach will be tracked and documented through a specific Project Disclosure. 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 9. BT Group will not share unpublished Openreach assumptions with the other downstream CFUs, though it can take account of them centrally to ensure that BT Group plans, forecasts and the overall BT Budget and MTP uses consistent data and assumptions.

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