



BT Compliance Committee

Annual Review 2019/20

July 2020

Contents	Page
Introduction from the BTCC Chair	1
1. About us: the BT Compliance Committee and the Commitments Assurance Office	3
2. Progress on DCR Outcomes	7
3. The Openreach Governance Model	10
4. Commitments Compliance	16
5. Looking forward to 2020/21	21
Annex 1: CAO Quick Checks during 2019/20	23
Annex 2: Overview of Commitments cases	25
Glossary	26

Introduction from the BTCC Chair

2019/20 was the BTCC's second year of operation and the first full year Openreach's new governance framework has been completely in force. The last few months have been a challenging time for us all, and much has changed since the start of the year. This report therefore covers the period to 30 June 2020.

Our approach to monitoring recognises BT's suggested hierarchy of questions facing Ofcom, industry, and other stakeholders:

Macro View

How well is the sector delivering to the needs of UK customers, businesses and the UK economy?

Digital Communications Review Outcomes

How is the sector delivering the outcomes sought by the DCR as a whole?

Openreach Governance

Is the governance model addressing Ofcom's concerns about strategic independence through vertical integration?

Compliance with the Commitments

Is BT doing what it said it would do?

We continue to perform our role by looking at the letter and the spirit of the Commitments, at the culture within BT and the behaviours of individuals in key roles. As the Commitments have become more embedded, we have increased our focus on industry outcomes and the views of stakeholders. We have reached out to industry for their views, CPs (BT and external) have presented at our meetings, and we have spoken with stakeholders such as the Office of the Telecommunications Adjudicator. Their feedback to us is reflected in this report.

In reviewing the operation of the governance model, we consider whether it enables BT to fulfil its Parent Company responsibilities alongside ensuring Openreach has greater independence. We take a risk-based approach to compliance monitoring, focussing deep dive reviews on the areas which could impact most on Openreach governance, and compliance with the Commitments.

2019/2020 was the year in which Openreach invested in scaling up its capacity to roll out fibre to the premises at pace, reaching a rate of 32,000 new premises with full fibre each week by May 2020. Funding was increased which enabled Openreach to accelerate its FTTP build so as to deliver fibre to 4.5m homes (premises passed) by the end of March 2021. And in May 2020 BT committed to provide the investment required for Openreach to roll out full fibre connections to 20m premises by the mid to late 2020s. This large scale investment in fibre clearly signals BT's commitment to providing the UK with world class connectivity.

BT and Openreach have also made good progress in delivering on other key DCR objectives. Openreach's Physical Infrastructure Access (PIA) products can support greater investment in fibre by competing suppliers. While operational monitoring is a matter for Openreach, we have seen from our Parent Company review in autumn 2019 (updated in May 2020) that there is good engagement between Openreach and industry to address and resolve the challenges of scaling up consumption, and demand from CPs for PIA is steadily growing.

In March 2020 BT launched its new Broadband USO service amid the operational challenges of Covid-19. We received updates at three meetings last year so we could be assured satisfactory governance and appropriate controls are in place to ensure BT will deliver as expected.

The governance arrangements between BT and Openreach have matured well this year. Adoption of the Commercial Processes, Products, Pricing and Projects Guidance Note in early 2020 was a significant milestone, completing the governance framework. The Financial Planning Process went smoothly. The Strategy Development Process operated for the first time. While timescales and process did not accord exactly with the Guidance Note, good constructive behaviours were observed and Openreach has confirmed BT did not interfere with the setting of its strategy. BT and Openreach also agreed and implemented a suite of Organisational Design Protocols to clarify working relationships where BT has a Parent Company or Supplier relationship with Openreach.

BT's second independent cultural maturity survey reported significant improvements in almost every metric and that Openreach has become culturally more independent since 2018. While the Openreach/BT Parent Company relationship has improved, more focus needs to be given to the Openreach/downstream customer facing units dynamic which appears to have stagnated and which, if not resolved, presents the biggest risk of deteriorating the BT/Openreach relationship.

BT and Openreach are taking further steps to address this. BT is enhancing induction processes to explain the positives of delivering on the letter and spirit of the Commitments. Senior managers in Consumer and Enterprise are working to ensure they can engage better with Openreach. Openreach is taking steps to ensure it treats BT exactly the same as it would any other CP. We will continue to monitor how this progresses and invite key stakeholders to update us at our meetings.

However, despite all the progress made, we have heard feedback that Openreach's independence can still feel fragile. We understand that CPs will be alert to any signs of a weakening of BT's resolve to ensure a more independent Openreach can make its own decisions.

Since March 2020, the Covid-19 pandemic has had a profound effect on us all. We have looked specifically at how the Commitments have operated under this additional stress and are pleased to report that the actions and behaviours of those involved in responding to it have adhered to the spirit and letter of the Commitments, evidencing the resilience of the governance framework and ways of working.

As we enter our third year of operation, complacency must not creep in. The significant investments in building new networks, and the need to deliver FTTP on time and on budget, mean rigorous cost control will be needed. Covid-19 has exacerbated this. BT has implemented new control processes across BT and Openreach and will introduce a new financial reporting system in autumn 2020. But while robust controls are necessary, BT's decision-making powers and Openreach's delegations of authority still need to be appropriately balanced and capable of explanation to stakeholders. We will review these matters carefully to assess whether BT's actions are justified as part of the outcomes-focused "big picture". We will also consider if they are usual or unusual compared to what other parent companies do to ensure financial discipline when funding such investments, while still always recognising Openreach's unique position. Similarly, we will continue our real time deep dive monitoring of the operation of the key governance processes – with a particular focus this year on BT's role in any fibre-related decisions that affect all CPs.

We will continue to engage regularly with Ofcom, as we have over the last year. We want also to be aware of other stakeholders' views, hear any concerns they may have and provide them with transparency of how BT is living up to its Commitments. If CPs or other stakeholders wish to engage with us, we will be happy to hear from them via the CAO. We will look carefully at any issues they raise.

Isabel Hudson
BTCC Chair
July 2020

1. About us: the BT Compliance Committee and the Commitments Assurance Office

The BT Compliance Committee (BTCC)

As part of the governance framework notified to Ofcom in March 2017, BT committed to a set of compliance monitoring arrangements whereby:

- the BTCC monitors issues relating to BT Group around the Commitments and Governance Protocol, and
- the Openreach Board Audit, Risk and Compliance Committee (OBARCC) monitors Commitments and Governance Protocol issues relating primarily to Openreach.

The BTCC is as a sub-committee of BT Group plc's Board Audit & Risk Committee. Under its [terms of reference](#) the BTCC reviews:

- BT's compliance with the Commitments and the Governance Protocol,
- whether the culture and behaviours in BT in relation to the Commitments and Governance Protocol are conducive to BT's compliance with them and to the delivery of the Digital Communications Review (DCR) objectives, and
- 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.

In the 2019/20 financial year, the BTCC met in July, September and November 2019 and January 2020.

The BTCC comprises three BT Group plc non-executive directors. Membership and attendance at meetings this year was as follows:

Member	Eligible to attend	Attended
Isabel Hudson (Chair)	4	4
Mike Inglis	4	4
Allison Kirkby*	2	2
Jasmine Whitbread**	3	3

*Allison joined the committee on 1 November 2019 and attended the November 2019 and January 2020 meetings

**Jasmine stepped down from the committee on 6 December 2019.

You can go to [the BTCC](#) for more information on the members.

The BT Group plc Company Secretary is secretary to the committee and attends all meetings. In addition the BT Group plc Chairman, Group Director Regulatory Affairs, Group General Counsel and the Directors of the CAO and Openreach's Commitments Monitoring Office (CMO) also attend all meetings.

The BTCC accounts to the BT Group plc Board as follows:

- After each BTCC meeting, the BTCC Chair provides a short oral update to the BT Group plc Board;
- Annually, the BTCC Chair reports to the BT Group plc Board Audit & Risk Committee; and
- The BTCC also participates in the annual Board Committee effectiveness review which assesses how the BTCC is performing in delivering against its Terms of Reference, and indirectly how the CAO is doing in discharging its role and responsibilities.

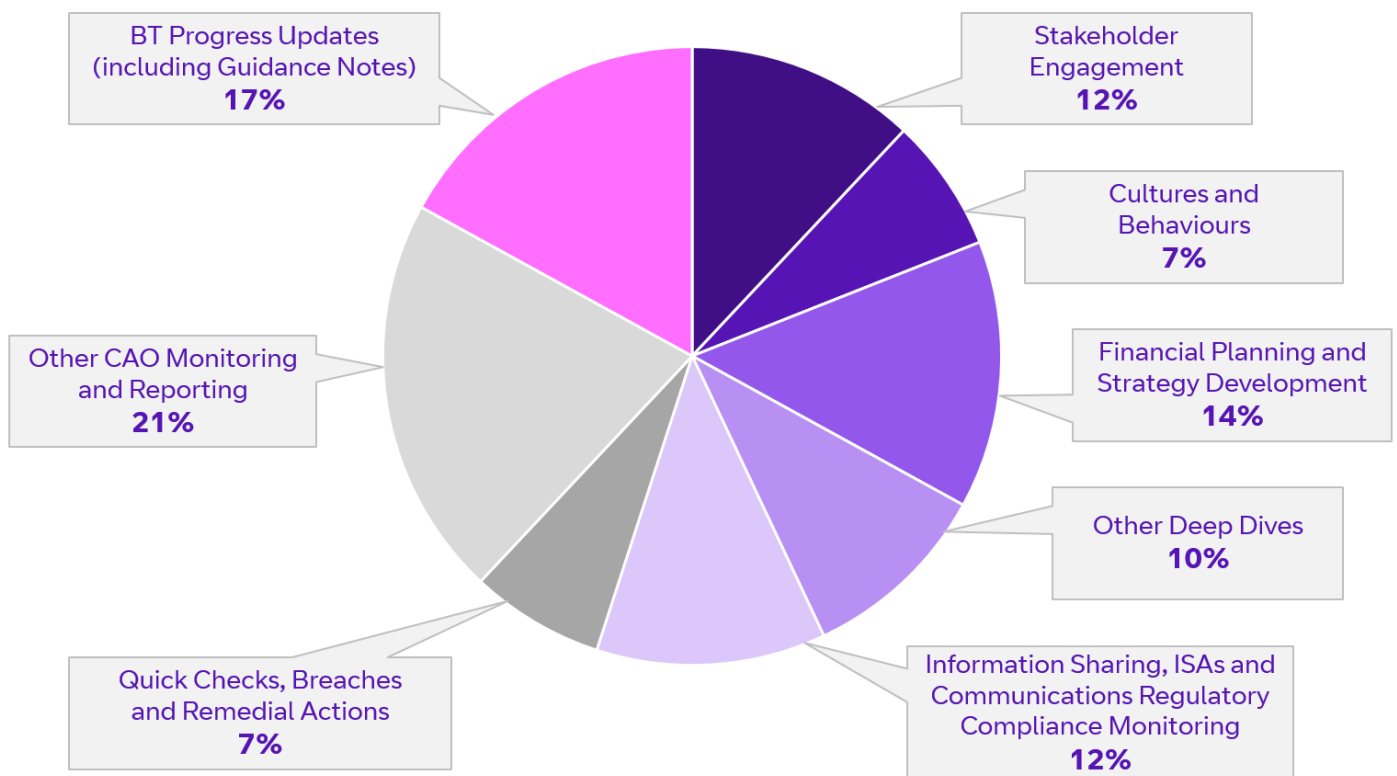
The BTCC has the following accountability to Ofcom:

- The agendas for BTCC meetings are shared with Ofcom’s Openreach Monitoring Unit (OMU) one week prior to the meeting and following each meeting the minutes are also shared with the OMU;
- The OMU is informed of the BTCC’s decisions in relation to breach cases and non-conformances with policy within two weeks of each BTCC meeting;
- The BTCC Chair is interviewed by Ofcom annually (as part of a series of interviews with senior BT and Openreach people) ahead of the publication of Ofcom’s annual implementation review; and
- The BTCC publishes its Annual Review.

In practice, we fulfil our role by monitoring whether the governance model for Openreach is working as expected and achieving the outcomes for consumers and industry that BT and Openreach, Ofcom, CPs and other stakeholders want to see. Central to this is ensuring Openreach is able to act with appropriate independence while BT is properly able to fulfil its Parent Company responsibilities.

To do this, we have reviewed BT’s compliance with the letter and spirit of the Commitments and the supporting Governance Protocol. We have also reviewed the behaviours and culture of BT people and the progress being made in the areas of greatest importance to industry and other stakeholders. We have heard from senior management in risk, compliance and assurance, strategy & transformation, group finance and the CFUs. Recognising what matters is how stakeholders perceive BT’s actions, we have also reached out to CPs and industry bodies such as the Office of the Telecommunications Adjudicator (OTA2) to seek their views on whether BT is delivering on their DCR expectations. We have taken a risk-based approach to our compliance monitoring, with our main focus being on the operation of the processes which may impact on whether the right balance of Openreach’s greater independence and BT’s Parent Company oversight is being achieved.

The chart below shows the allocation of time at our meetings in 2019/20 to different areas of focus.



The Commitments Assurance Office (CAO)

The CAO supports the BTCC. It is comprised of the CAO Director, the Senior Manager and the Commitments Assurance Professional. It has support from BT's Company Secretary's department for BTCC meetings. You can find out more about the CAO on its [team page](#).

The CAO's monitoring and reporting to the BTCC includes investigating complaints and conducting Quick Checks into matters raised by CPs, Ofcom, or other stakeholders. It undertakes assurance reviews and deep dives on matters such as the financial planning and strategic development processes. It reviews breach reports received from BT. It can also institute Quick Checks and investigations on its own initiative.

The CAO works closely with Openreach's CMO, particularly on matters which involve an interface between BT and Openreach.

The CAO and the OMU have agreed a [Memorandum of Understanding](#) which sets out the working arrangements agreed between the CAO and the OMU. The CAO is accountable to the OMU as follows:

- The CAO meets on a monthly basis with Ofcom's OMU to update it on the CAO's monitoring of what BT is doing to ensure it has delivered on the Commitments. It also reports on deep dives, Quick Checks, and other monitoring activities;
- The CAO responds to Ofcom requests for information, both ad hoc and as part of submissions used by Ofcom ahead of its reports on BT's implementation of the Commitments; and
- The CAO investigates matters referred to it by the OMU, which may be handled initially as a Quick Check review.

The CAO has continued to meet with the OMU to report on its work approximately monthly this year. The CAO provides the OMU with copies of the minutes of BTCC meetings, reports the BTCC's findings on potential breaches to the OMU and provides other information required by the OMU to fulfil its monitoring responsibilities.

Over the last year the CAO has formalised and embedded its operating model to ensure its own long-term sustainability.

Deep Dive Monitoring

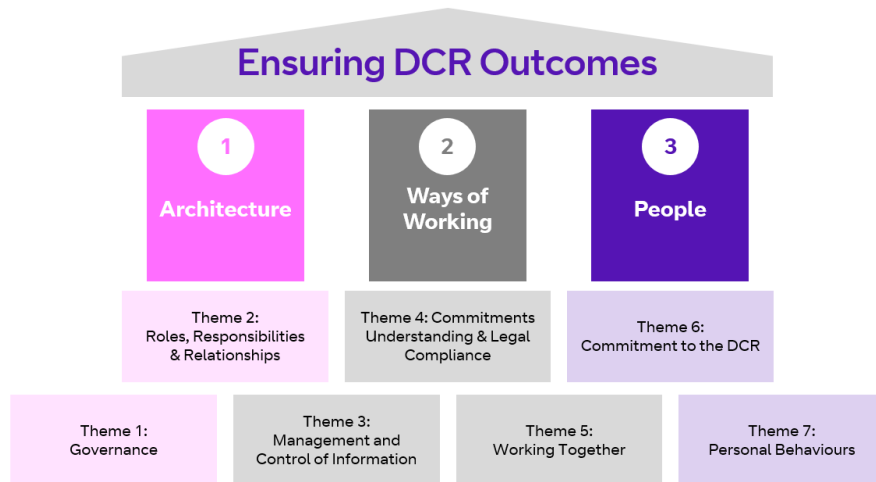
The CAO has developed a standardised process for deep dive reviews, summarised below:

Our methodology will follow broadly the same framework, adapted to suit the particular circumstances	
1	What happens and why: understanding the narrative – the chronology and the business drivers
2	What is the governance: what is the RAPID ¹ , does it respect “the DCR balance” and, in due course, did it prove robust (architecture)
3	What are the processes and controls: are these and any three lines of defence models working to mitigate/manage risks as expected (architecture/ways of working)
4	What behaviours are those involved displaying: do they align with expectations (people)
5	What do the documents show: does a review of key project documents and, where necessary, reviews of communications between key individuals substantiate our other findings (evidence – validation of all the others)
6	What are the outcomes: do they align with expectations (outcomes)
7	In life and looking back: how do/did key stakeholders feel: their views about how things are going/went and the outcomes achieved (outcomes)

¹ RAPID is a decision-making model used within BT Group (created by Bain & Company) with clear Recommend, Agree, Perform, Input and Decide roles within an organisation.

The CAO has also formalised the criteria by which it will assess performance by BT. This Deep Dive Review Framework is set out below.

We look at the **Architecture, Ways of Working** and **People** aspects of how major projects/processes are run over their life cycle



This framework has:

- A focus on DCR outcomes: the overarching principle of assessing whether what the CAO sees supports the DCR outcomes;
- Three key pillars: The broad categories the CAO looks at – all three need to work to ensure the Commitments can be enduring; and
- Seven key themes: these break the three key pillars into tangible themes that enable people to know what to do and assess their own conduct. In respect of each theme, the CAO has identified what it expects to see, what it would be disappointed to see, and what it would regard as role modelling.

CAO reports to the BTCC this year have been based on this review framework. It is a framework which has proved useful more broadly, for example in the context of Quick Checks.

CAO Manual

In March 2020 the CAO [published its manual](#). This sets out its operating processes, its procedures for investigating complaints, breach investigations and Quick Checks and its approach to assessing behaviours.

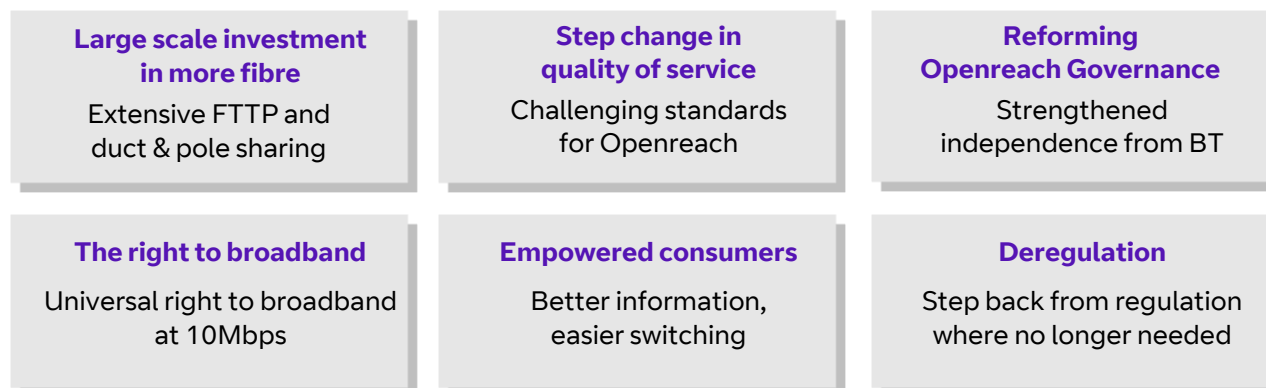
CAO Effectiveness Review

We recognise the importance of providing stakeholders with confidence that our monitoring is effective. The CAO has, at our request, commissioned the monitoring trustee team of Smith & Williamson to undertake an independent review of the effectiveness of the CAO's monitoring and reporting to us. We will receive their report at our July meeting, together with the CAO's proposals in respect of any recommendations for enhancements to the monitoring process which Smith & Williamson make.

You can contact the CAO via cao@bt.com.

2. Progress on DCR Outcomes

In February 2016, Ofcom [set out its key proposals](#) aimed at ensuring digital communications markets work for everyone as summarised below:



BT's Commitments together with the governance model which has now been established for Openreach are intended to address many of these. We therefore look closely at whether these objectives are being met, in addition to monitoring that BT is doing what it has committed to do. This also means understanding whether other stakeholders – and indeed Openreach – consider that BT is living up to its Commitments and meeting their expectations.

The key themes for the BTCC are fibre investment and the right to broadband via the USO, both covered in this section, together with Openreach governance and independence addressed in Section 3.

Investment in fibre and duct & pole sharing

Fibre Investment – Extensive FTTP

Over the last year, Openreach has rapidly increased its capability to roll out full fibre connectivity (FTTP). As part of this Openreach successfully sought in-year capex increases from BT to both support its rollout programme during 2019/20 as well as investments in Openreach capacity to build at scale in subsequent years. As at May 2020, the level of investment was enabling Openreach to reach a rate of 32,000 new premises with full fibre each week.

BT and Openreach have also reaffirmed their commitment to delivering full fibre across the UK – funding Openreach to accelerate its FTTP build so as deliver fibre to 4.5m homes (premises passed) by the end of March 2021.

And, in its [2020 annual report](#), BT confirmed the intent of the BT Group plc Board to go further. It stated that with the right fiscal, regulatory and legislative enablers in place, BT Group can invest at the level Openreach needs for scale deployment in all parts of the country, supporting the Government's nationwide gigabit-capable broadband ambition. It stands ready to make the biggest communications infrastructure investment in the UK in a generation – which includes building full fibre network to 20m premises by the mid-to-late 2020s.

Over the course of the last year the CMO kept the development of Openreach's fibre business case under review, and we kept the development of BT's Group fibre investment case under review alongside this, in parallel with the development of BT's Group Strategy. The outputs from these fed into BT's and Openreach's financial planning. The CAO has an active monitoring approach in as close to real time as is feasible, including regularly interviewing key stakeholders, collating key documents as they were issued,

and observing BT Investment Board meetings where Openreach matters were discussed. We report further on the operation of these processes in the Section 4, Commitments Compliance. In summary we observed Openreach was able to develop its fibre investment case independently, and there was good support from BT for Openreach to present a robust financial case for investment.

Duct and Pole Access (DPA)

The CAO reported to us at our November meeting on its deep dive review into DPA undertaken jointly with Openreach's CMO. While day-to-day delivery of DPA is a matter for Openreach, we recognise the importance of successful delivery of DPA to industry as a key DCR outcome. Accordingly, this Parent Company review, six months after the launch of unrestricted DPA by Openreach, covered Ofcom's objectives for DPA, and the CAO/CMO assessment of progress to date and of the architecture, ways of working and people and culture.

The CAO/CMO also reviewed the compliance controls with particular reference to two specific risk areas: the "no undue discrimination" obligation and information management. Openreach has made good progress both in terms of service delivery and compliance assurance and the key risks are being kept under review by the compliance and audit teams. The OBARCC is responsible for monitoring the day-to-day operation of the compliance controls and their [annual report](#) provides further information on the work done in Openreach to ensure the controls are robust and effective.

At our May 2020 meeting, we received a shorter half-yearly update informed by a virtual meeting of the BTCC Chair and the CAO Director with representatives of the OTA2. Openreach and industry are continuing to work collaboratively to address technical issues as they arise and enhance the operation of key processes at scale. We will receive a further update at our November 2020 meeting.

Broadband Universal Service Obligation (USO)

At its September meeting, the Committee received an initial update from Monica Ariño, BT Group Regulatory Affairs and Mark Shurmer, Managing Director Regulation Openreach, on BT Group's and Openreach's preparations for delivery of the requirements of the Broadband Universal Service Conditions which came into force on 20 March 2020.

At that stage the operational delivery processes were still being developed. We discussed the importance of pressure testing the processes designed to support the activities of BT's Universal Broadband Support Group to ensure their effectiveness. From a compliance perspective, the Committee recognised correctly managing information held by BT and Openreach for the purposes of the Broadband USO would be critical.

The Committee received further updates at its November 2019 and January 2020 meetings. These gave us greater confidence that very sensitive information about Openreach's and CPs' networks was being effectively managed during the implementation stage and that it would continue to be appropriately managed after launch. We were reassured that BT has put in place appropriate governance, with accountability within Consumer to the BT Group Chief Executive for the implementation of the broadband USO and compliance with BT's obligations, with quarterly progress reporting to BT's Executive Committee.

In light of Covid-19, after consultation with stakeholders including Ofcom, Consumer "soft launched" the Broadband USO service in March 2020, with customer engagement activities held back for operational reasons. As the situation improves, Consumer will be ramping up its Broadband USO activity. The Committee will receive a further update in the second half of 2020 covering how the governance

arrangements intended to support the broadband USO are operating in practice and whether it is delivering as intended.

Stakeholder Engagement

During the year we have heard feedback from a variety of sources including as a result of a CAO “reach-out” programme with CPs, and by engaging with other stakeholders such as representatives of the OTA2. Guest speakers at our meetings have included the CEO of Openreach and, representing the CP customers of Openreach, the Chief Consumer Officer of Sky UK and the CEO of BT Consumer, both of whom commented on the progress made and the challenges still remaining in order to drive scale take up of fibre and the transition from legacy products to All-IP.

In November 2019 Ed Petter, BT Group Corporate Affairs Director, shared his assessment of the current perceptions of key stakeholders regarding BT. This drew from a recent research study carried out for BT with 100 key stakeholders including media, politicians and industry analysts. He gave his perspective on the issues the BTCC should be focused on in light of that stakeholder feedback. He identified there have previously been concerns about the pace of fibre roll-out, but that professional stakeholders do now think BT takes its part of the fibre broadband roll-out seriously and increasingly acknowledge the challenges BT faces in doing so.

Our reviews of progress with duct and pole access were informed by feedback from the OTA2 and the CAO’s outreach programme. As indicated above, these were broadly supportive of the progress made to date and Openreach’s willingness to engage with CPs on the challenges associated with scaling up supply. Clive Selley attended our September 2019 meeting to give us his perspectives on DCR outcomes - and reaffirmed his commitment to making a success of DPA.

3. The Openreach Governance Model

The Openreach Governance model is intended to provide Openreach with more independence to make its own decisions, so it can be responsive to customers, support increased investment and improve service quality. However, this does not mean Openreach can, or should, operate with absolute independence. BT, as Openreach's Parent Company, retains a legitimate interest in its activities and has a duty to oversee Openreach's financial performance.

There is a careful balance to be struck between Openreach's greater strategic and operational independence and Parent Company oversight necessary for BT to fulfil its responsibilities. The appropriate place for this balance may evolve to some extent over time and be impacted by internal and external events. In recent months the financial challenges BT faces to deliver large scale investments efficiently have heightened the need for rigorous cost controls. These challenges have also been exacerbated by the financial impacts of Covid-19 (on BT's and Openreach's customers as much as on BT).

While the practical details of day-to-day ways of working between Openreach and BT may evolve to meet operational requirements, the underlying principles of the governance model remain the same. Accountability and ownership still need to be clear, appropriately balanced, and capable of being explained transparently to those who judge BT. Increasingly, the lens through which we review the operation of the governance model is to assess whether or not BT's actions are justifiable as part of the outcomes focused "big picture"; and usual or unusual compared to what other parent companies would do to ensure financial control when funding significant investments while still recognising Openreach's unique position.

In this section we report on how we have monitored Openreach governance over the last year. Section 5 below sets out how we intend to monitor the governance model in the coming year. Our review framework considers: (a) architecture, (b) operating model/ways of working, and (c) people - culture and behaviours.

Architecture

Last year we reported BT and Openreach had agreed Guidance Notes setting out the processes by which (a) the BT Group Strategic Framework would be developed, and how, having regard to that, Openreach would set its own strategy, and (b) the Financial Planning Process by which BT Group's and Openreach's Annual Operating Plans and Medium Term Plans would be set. The financial planning process – operated for the third time this year – is now mature and operating smoothly. The Strategy Development process operated for the first time, against the backdrop of the challenge of the new BT Chief Executive to redefine BT's purpose and ambition for the next 10 years. While the timelines were adapted in light of this, the CAO observed healthy and constructive engagement between the Openreach and BT teams. We report further on our monitoring of these processes in Section 4.

This year BT and Openreach agreed two more Guidance Notes:

- The [Regulatory, Policy and Legal Processes Guidance Note](#), is largely a codification of previous practices. The CAO recently monitored its operation via a Quick Check of the governance of BT's response to Ofcom's Wholesale Fixed Telecommunications Market Review consultation. The CAO found the governance and ways of working were in line with the Guidance Note.
- The [Commercial Processes, Pricing, Products and Projects Guidance Note](#) sets out by reference to five tests the product and pricing decisions Openreach can take itself, and those which have to be referred to BT. It also clarifies BT's role when matters are referred to it. Openreach reported at the

BT stakeholder event in March 2020 that Openreach now makes over 200 pricing and portfolio decisions annually – more than ever before. 99% of these decisions did not trigger any of the five tests which would require reference to BT. Since 2017, only four proposed decisions have been referred to the BT Chief Executive for approval: two due to strategic significance and investment; one for legal and regulatory risk; and one for financial value.

The importance of agreeing the Commercial Processes, Pricing, Products and Projects Guidance Note should not be underestimated: it completes the product governance framework. Any engagement between Openreach and BT in relation to products is undertaken within either the process set out in the Guidance Notes on Strategy Development or Commercial Processes. There is no “third-way” for BT to engage with Openreach.

While the governance architecture for Openreach to operate independently is now complete, we are aware there are still concerns amongst CPs as to whether the current governance model will be enduring. The CAO reached out to CPs in autumn 2019 to seek their views and to establish their confidence levels in the current arrangements. There was a broad level of support for the Commitments model but a number expressed the view that the greater independence of Openreach felt fragile. CPs remain vigilant for signs of greater independence being eroded. In particular, the proposal (not implemented) to enlarge the Openreach Board by adding another non-executive director as well as the BT Group Chief Strategy & Transformation Officer caused significant concern. Some CPs indicated BT ought to have been aware of how this proposal would be received by industry.

However over the course of the year we observed that there remains a legitimate and indeed beneficial role for certain BT Group functions in supporting Openreach. In the course of its monitoring activities, the CAO has spoken with senior staff in Openreach who confirm Group Strategy (and Group Procurement) people have worked with them constructively, helping them to improve Openreach investment proposals, rather than seeking to influence them inappropriately. Nonetheless, we do recognise the importance CPs place on the ability of the Openreach Board to fulfil its role independently. This is why, in our deep dive monitoring reviews of the key processes, we look closely at how the Openreach Board has been engaged.

Operating Model/Ways of Working

The ways of working between BT and Openreach have improved in most regards. The key enablers were relationships maturing between people in each organisation, and greater levels of trust and understanding of the roles of their counterpart.

Our approach uses the three relationship lenses which typify engagements between Openreach and BT: Parent Company oversight by BT, the supply of services from Group functions into Openreach, and the BT customer/Openreach supplier relationship with BT’s downstream Enterprise and Consumer divisions. The first two areas are covered immediately below, and the latter is covered in the section on People – Culture and Behaviours.

Openreach Non-executive Directors Reappointments

The original appointment terms of the Openreach Chairman and non-executive directors expired on 29 February 2020. The Governance Protocol had provided they could be reappointed for two more three year terms.

The Openreach Chairman was keen to avoid all directors coming up for renewal at the same time and saw the need to evolve the Board in an orderly fashion. He therefore proposed reappointment on the basis of rolling contracts with fixed notice periods. On 1 March 2020, BT made a minor variation to the Governance Protocol to reflect this proposal and to provide greater transparency of the informal review

process the Openreach Chairman has undertaken with the BT Group Chairman each year. The CAO undertook a Quick Check review of the reappointment process: further details are in Section 4 below.

We note BT Group was happy for the Openreach Chairman to lead the process for identifying future directors and the skill-sets required, working with the Group HR Director, and keeping the BT Group Chairman informed. Once the Openreach Chairman had selected the preferred candidate, in accordance with the Governance Protocol, he was appointed by the BT Group Nominations Committee.

Organisational Design (OD) Protocols

In late 2019, Group HR completed its OD review of accountabilities and decision rights as between BT Corporate Units (acting in a Parent Company capacity and as Suppliers) and their Openreach counterparts. These are recorded in a suite of 15 protocols. They cover a range of areas including Procurement and Technology and will be useful governance documents of record, and evidence BT has clarity of the ways of working between BT and Openreach, and that these are embedded.

Since their completion, BT has put in place measures to enhance financial controls. These include new procurement expenditure authorisation processes, which reduce the delegated spend authority of all BT units and Openreach, and the introduction of a number of Group-wide procurement review boards (Category Boards). Openreach has its own Category Board, where both Clive Selley and BT's Chief Procurement Officer each have a "Decide" right on procurement matters, albeit focussed on operational concerns and procurement processes respectively. In this respect, Openreach is being treated differently from the BT CFUs whose CEOs do not have such role/rights. The CAO is monitoring how these changes work in practice.

The Procurement OD protocol is now being revised to reflect the new position. The controls and balance mechanisms will essentially replicate those in the key guidance notes: i.e. the grounds on which the Chief Procurement Officer might intervene in an Openreach procurement decision, and it will include the escalation rights of the Openreach CEO if dissatisfied with the Chief Procurement Officer's decision. BT has also introduced a new pan-BT consultancy DoA framework requiring all consultancy spend requests (including those from Openreach) to be agreed by a BT review group. The CAO is currently reviewing how this operates, but we anticipate a framework similar to that for the other types of procurement will be adopted in the OD protocol.

BT Supplier Relationships into Openreach

Last year, the CAO and CMO worked together on an initial assessment of the supplier relationships into Openreach from BT. The initial step was to clarify, for each service supplied, whether BT acted only as a supplier, had parental oversight responsibilities, or had parental influence (or in some cases a mixture of all three). Thereafter they sought assurance that: (1) the necessary supplier SLAs are in place; (2) any agreements relating to parental company oversight are properly documented as between BT and Openreach; and (3) necessary information sharing controls are in place. This year the CAO and CMO built on their 2019 assessment of supplier relationships focussing on higher risk areas (from both a compliance and a business risk perspective). This review covered: large scale operations (group business services, including billing), business/operational support services (procurement, business transformation, strategic programmes) and professional support services (competition finance, legal, regulatory). The CAO will report separately later in the year on its review of the supplier relationship from Technology into Openreach, which had to be deferred due to the initial impact of Covid-19.

Broadly we found there are documented ways of working, and each area benefits from good personal relationships that enable issues which do arise to be raised in an open and honest manner without requiring escalation. A number of points stand out:

- Since joining BT seven months ago, BT's Chief Procurement Officer has engaged constructively with Openreach to build a positive working relationship, and both Openreach and BT reported the relationship is effective at a working and strategic level. Openreach has fed back to the CAO that this support is beneficial in large procurement exercises, as Openreach is able to benefit from the procurement expertise of people in Group who are really trying to understand their business and help them develop good procurement cases. The CAO and CMO are jointly monitoring how the new processes are operated in line with the Commitments.
- We have observed process inefficiencies between Openreach and BT in areas including brand. We are keen to see these sorts of issues resolved and welcome work being done to clarify roles and responsibilities as part of the ongoing OD protocol work.
- With regard to billing services, Openreach expressed concerns around operational rather than compliance issues, and we recognise this is an issue of concern for CPs. We found the functional leads in Openreach and BT Group are already speaking regularly to work to improve the service provided, and we will monitor this area to track progress.

At the time of our supplier review the key relationships had yet to be materially affected by Covid-19. We are including this in our work around the impact of the pandemic on the operation of the Commitments.

People – Culture and Behaviours

This year we have closely monitored the culture in BT in order to assess whether the Commitments are embedded into everyday working practices. If done correctly this ensures that, with the passage of time, and as new people join the business, they continue to understand the rationale for the Commitments and the importance of adhering to their spirit and letter.

At our November 2019 meeting, BT's Senior Manager, Policies, Standards Learning & Culture, reported on training effectiveness around the Commitments. This covered the now-established Commitments mandatory training cycle and Commitments roadshows for people in higher-risk teams (which use face-to-face workshops to increase engagement, and interactive voting on more complex issues to stimulate discussion around making the right decisions).

At our May 2020 meeting, we heard from independent culture change experts Walking the Talk on the comprehensive second Hearts and Minds survey they had undertaken on behalf of BT covering people in Openreach and certain BT Group functions to assess, from a Commitments perspective, the degree of cultural maturity. The key findings were:

- Culturally, Openreach is more independent than at the time of their first report in October 2018.
 - They found improvement in almost every dimension of the maturity profile.
 - There had been improvement in the level of activation of the Commitments from a high base in 2018. They observed a visible divergence in strategic objectives, with impact on industry, not BT, used as the basis for Openreach decision-making.
 - There had been significant improvements in role clarity and in personal responsibility, with integration of new mind-sets and behaviours into daily personal routines and habits – including more listening, mutual understanding and respect.
- The relationship between BT and Openreach has largely matured in support of an independent Openreach.
 - They found significant improvement in the formality of the relationship, with controls systematised and new levels of respect and equality in interactions. BT Group is now largely seen by Openreach as an investor and shareholder, and Openreach is seen by BT Group as a business in its own right.

- There was improvement in confidence to speak up from a high base, encouraged by well-regarded and supportive Business Integrity, Regulatory Affairs and Ethics and Compliance functions.
- In terms of the dynamics between different parts of the group, they found improvement in the Openreach/BT Parent relationship, but slight retrograde in the Openreach/BT Supplier and Openreach/BT Customer relationships. They flagged the challenges felt in Openreach and BT. Openreach people commented that if Openreach acts positively for BT Consumer, the question is asked *“is this fair to external CPs”* and if it acts negatively for Consumer it is asked *“Is this fair to BT”* – leaving Openreach people feeling in a lose/lose position. BT Group people commented that Consumer felt at a disadvantage as they had less leverage than other CPs and were treated less favourably.
- There have been huge positive advances in Openreach’s independent identity, and improvements in Openreach’s confidence to make decisions, and ease of doing business. However, in parts of BT there was a perception that while independence has been maximised, it has not yet been optimised (i.e. there are still areas of complexity, multiple hand-offs and inefficiency).

We also received BT’s update on its plans to address the findings and recommendations from this report.

BT recognises that after two years of positive progress, it cannot risk complacency now. To maintain the culture which underpins Openreach working with greater independence, it will ensure the tone from the top continues to be positive and supportive. It is looking to enhance the induction processes so that as new leaders join the company, they understand the reasons for the Commitments and the benefits of delivering on them. BT will also be looking at what is necessary now to ensure the Commitments remain up to date and relevant.

BT will identify where there is complexity and focus on areas where simplification may be beneficial, in particular in areas where enduring painful complexity could lead to the risk of people wanting to circumvent the established processes.

We are particularly keen to see attention given to improving the Openreach/downstream BT CFUs dynamic which appears to have stagnated. We are pleased to note that BT and Openreach are both taking steps to address this. BT is developing best practice guidance for Consumer people on how to engage with Openreach. Enterprise and Consumer are adopting a more co-ordinated approach to engaging with Openreach which should help address Openreach’s concerns as to BT’s lack of clarity of what it wants from Openreach. The number of personnel changes in Consumer in recent months appears not to have helped matters, but we note that those newly appointed have confirmed willingness to understand better what needs to be done to improve this relationship. For its part, Openreach is emphasising to its people that when negotiating with BT’s downstream units, they should treat BT on the same basis as other CPs when considering the potential for BT to source from an alternative supplier.

Given that, as Walking the Talk identified, if not resolved, this ongoing issue presents the biggest risk of deteriorating the BT/Openreach relationship, we will continue to monitor closely the impact of these activities and invite relevant personnel to update us at our meetings.

Finally, in Section 5 below we report on the impact of Covid-19 on Commitments compliance. The update we received at our May 2020 meeting showed the current governance framework is well-embedded as a part of Openreach and BT culture. In the face of the challenges brought about by the pandemic, they have remained mindful of the spirit and letter of the Commitments.

Stakeholder Engagement

The success of the Openreach governance model is, understandably, the area on which we have received the most feedback. We have seen this through the CAO's outreach programme in autumn 2019, at the OTA Executive meeting attended by the CAO Director in October 2019, at the BT stakeholder event in March 2020 and from speakers at our BTCC meetings. At our September 2019 meeting, Clive Selley, Openreach CEO, shared his perspectives on DCR outcomes, how the governance arrangements under the Commitments are working, and Openreach's relationships with its CP customers.

We have noted clearly the key concern for CPs is having comfort that Openreach is able to operate independently, so as to serve all its CP customers as best it can, and with a Board which can make its own decisions when setting its strategy. We recognise the importance of providing transparency in this regard. We therefore welcomed BT's willingness to explain to CPs at its stakeholder event last year how the Financial Planning and Strategy Development processes operate and this year how the new Regulatory, Policy and Legal Processes and Openreach Commercial Processes Guidance Notes will operate. This is why the CAO and CMO have spent considerable time over the last year monitoring those processes (as reported in the next section of this report), including seeking assurance from Openreach stakeholders that these processes are working for them.

The second key theme from industry feedback is the need to ensure commitment to the governance model and Openreach's greater independence is appropriately embedded so as to be enduring. As already mentioned, CP confidence in BT's commitment can be shaken by actions which do not appear to be aligned with that – such as the proposed appointments to the Openreach Board. We are pleased BT is well aware of this challenge and is taking steps to address this. As part of its response to the Hearts and Minds survey, BT plans to refresh training for new joiners in critical roles to ensure they understand what is expected of them and why that is the case. In addition where there are changes to the DoAs resulting from the increased financial pressures, BT is amending the relevant protocols to ensure Openreach's greater independence and the role of the Openreach Board remain properly respected. We will continue to monitor this closely in the coming year.

With regard to the Openreach/Customer relationship, in July 2019 our guest speaker was Marc Allera, CEO of BT's Consumer division. Marc gave Consumer's perspective on working with Openreach as a key supplier under the Commitments, and Consumer's focus areas for optimising the customer-supplier relationship.

4. Commitments Compliance

Compliance Monitoring

Covid-19

The rapid spread of Covid-19 in March and April prompted the CAO, together with the CMO, to reassess their monitoring focus, to identify how they might be able to provide assistance in that time of emergency to those engaged in mission critical activity, and where they should focus their monitoring to ensure BT and Openreach maintained the spirit of the Commitments.

BT's Executive Committee was reminded at an early stage that while Ofcom had indicated it would take a pragmatic approach to enforcement of regulatory obligations provided CPs could show they were acting in the interests of consumers and society, it did not mean existing regulations or deadlines could be ignored completely. In terms of the Commitments, they were reminded that, in BT Group, it would mean being able to explain why any greater, more centralised, Parent Company oversight and direction was appropriate. And it was stressed that Covid-19 must not be used as a smokescreen for behaviours/actions which would otherwise be inappropriate.

In practice, the governance and ways of working under the Commitments have proved highly resilient with actions and behaviours continuing to adhere to the letter and spirit of the Commitments. The main changes in ways of working have been in Openreach to ensure stability of the network, security of Openreach employees, and to manage the needs of CP customers and consumers whose homes their engineers need to visit. The OBARCC is monitoring the Commitments aspects in that regard.

From the BT Parent Company oversight perspective, the immediate implications were limited (as distinct from the impact on the day-to-day operations of BT CFUs and Openreach). BT's Executive Committee appointed a steering committee which from early March originally met daily, then from late April bi-weekly, and since the end of June, weekly. Whilst the Openreach CEO (or delegate) attended these, information sharing processes were well respected. For example, there was pan-BT co-ordination on issues such as the number of employees unable to work across the business, efforts to secure a guaranteed supply of PPE and tracking the performance of intensive cleaning in buildings where colleagues were still working. Openreach CI/CCI was not shared and downstream CFU representatives were not being provided with service related information which was not being given to other CPs.

In the longer term, the more significant Covid-19 consequences for BT are primarily those linked to the need for financial rigour, as manifested in the changes to the delegations of authority for procurement. It will also flow through into the operation of the Financial Planning process and potentially the next round of Strategy Development. We will continue to keep these under review in the coming year.

Financial Planning

BT's [Guidance Note](#) published in March 2019 explains the principles underpinning the annual financial planning process.

At our July 2019 meeting, we received and discussed the final report on the CAO and CMO joint review of the annual financial planning process which covered the production of the Openreach 2019/20 Annual Operating Plan (AOP) and Medium Term Plan (MTP). This had involved cross-checking actual progress against the documented process, seeking evidence that controls were in place and followed, and building an audit trail showing when, how and why the numbers in the plan changed. This was supplemented by a review of emails between key senior executives to understand behaviours during the process and ascertain whether the controls had been observed. In summary, the CAO and CMO found the

documented process was followed and the controls respected, giving Openreach greater independence and respecting the role of the Openreach Board, and the process appears to have given BT what it needs to fulfil its Parent Company responsibilities. It was also helpful to hear, at the meeting, from the operational leads in BT (the Director of Group Financial Planning & Analysis) and Openreach (the Chief Financial Officer) who are, essentially, the process control owners. They both confirmed clear understandings of each other's role, that the process was working for them, and the controls set out in the Guidance Note were being respected.

At our November 2019 and January 2020 meetings we received and discussed interim reports on the CAO and CMO joint review of the annual financial planning process covering the production of the Openreach 2020/2021 AOP and MTP. The MTP20 Financial Planning process commenced in earnest in November 2019. The CAO and CMO's review methodology is the same as last year. The CAO has had very good engagement from both Group Finance and Openreach Finance. The key process documents have been proactively shared with the CAO, and the CAO has been invited to observe key calls in which the process is explained to the Finance community across BT Group, both of which facilitate tracking of key process milestones in line with the Financial Planning Guidance Note. The CAO and CMO continue to host bi-weekly calls to check current status and understand next steps. The CAO has also regularly observed meetings of the BT Investment Board at which Openreach matters have been discussed.

We will receive the final report at a later meeting. So far this year, no concerns have been raised about the operation of the process this year.

Strategy Development

Alongside the Financial Planning Guidance Note, BT also published the Strategy Development Process [Guidance Note](#) in March 2019. This is based on the same design principles used to develop the financial planning process, and Openreach has clarified how its own distinct strategy development process will synchronise with the BT Group process. This also incorporates key compliance controls and highlights the differences for Openreach from the process for other parts of BT.

The Director of Corporate Strategy, BT Group, attended our July 2019 meeting and provided an update to the Committee. He explained the new BT Group Chief Executive had tasked Group Strategy & Transformation to define the type of business that BT Group should be in 10 years' time. As a result, the operation of the annual Strategy Development Process was being slightly adapted to ensure BT can both articulate the longer term BT vision and develop the next MTP informed by this.

At our subsequent meetings, we have received updates on the joint work by the CAO and Openreach's CMO on assuring BT Group's Strategy Development Process. This work remains ongoing, with regular engagement with the Strategy teams in BT and Openreach by the CAO and CMO to enable as close to real-time assurance as is feasible. No indications of compliance concerns have been identified or raised with us. Both BT and Openreach people have confirmed BT Group has respected Openreach's greater independence and that Openreach has been able, thus far, to develop its plans without undue interference from BT Group. We also welcome the approval of the new Group Strategic Plan for BT by the BT Group plc Board to support the strategy development process in subsequent cycles. The CAO has also reviewed correspondence between senior executives in Openreach and BT, which confirmed Openreach has been able to proceed independently in the development of its strategy.

Information Management

The BTCC reviews how Openreach CI and CCI is being managed at each of its meetings. We review both the operation of the information management ecosystem and what this tells us about the way in which Significant Information is being shared and used in BT (as envisaged by Commitment 10.4).

Our review of the information management ecosystem entails looking at three areas:

- **Regulatory Compliance Markers (RCMs).** BT people must have the right RCM which is linked to their role. Where there is a legitimate need to share Openreach CI or CCI, a BT recipient should have their RCM in place before the information is sent. There has been no significant increase in the number of RCMs over the year. Regular reviews are undertaken to ensure those with markers do still need them. The marker system has also been adopted in other circumstances that give rise to similar issues around managing confidential information between teams, for example PIA markers in relation to network build in Openreach, and in those parts of BT Group, including Consumer, which are responsible for handling sensitive information under the broadband USO.
- **Information Sharing Agreements (ISAs).** The ISA process authorises the sharing of “routine” CI and CCI without it being recorded on an individual basis. Over the course of the year Communications Regulatory Compliance (CRC) has reviewed the end to end operation of all of the ISAs. While a significant proportion of the ISA reviews identified the need for some form of remedial improvements, we note these have now been addressed and that the ISA processes are therefore working more effectively.
- **BT’s Disclosure Records Report.** We review the quarterly Disclosure Record Report produced by BT recording when significant CI and CCI has passed from Openreach to BT or been sent onwards within BT. Last year we reported that we believed there remained scope for improving the quality of the reports and the assurance provided as to their completeness. Over the course of the year, the quality of the quarterly reports from CRC has steadily improved and we are now able to understand the nature of the key interactions between Openreach and BT.

Systems access controls are robust (and will be even more so when the BT and Openreach introduce a new financial reporting system later this year). The controls around the sharing of information by email are still primarily directive and detective (rather than preventative) but they are now operating as intended. As our breaches review shows, while several investigations related to information management, none of these have been serious, and none involve inappropriate sharing with “high risk” individuals in BT’s downstream CFUs.

Other compliance monitoring activities

The BTCC has received updates on BT’s system separation programme in light of BT’s previous assurance that it would achieve the level of system separation previously committed to Ofcom, notwithstanding BT’s release from the Undertakings. Although BT had committed to complete separation of all ISDN2 accounts by April 2017, there still remains a very low number (“a few 10s”) of accounts not migrated – not materially more than the 45 reported last year. Enterprise have informed us that occasionally there are still needs to create new Classic accounts, but they arrange for these to be migrated within two billing cycles. It may be extremely difficult for BT to reduce this figure to zero, but we will continue to monitor Enterprise’s efforts to do so.

On 28 June 2019 Ofcom published its [final statement](#) on its Business Connectivity Market Review (BCMR), resetting the regulatory framework for leased lines to apply until 2021. It deregulated certain leased line services Ofcom deemed to be competitively supplied. The BTCC monitored the approach taken by BT to fulfilment of the Commitment 3.6 provision that deregulated products should be moved out of Openreach, except in the event BT determines at its sole discretion that it is impractical to do so. Following review by BT and Openreach, BT concluded it would be impractical to move the products concerned out of Openreach. A project team is continuing to review how to gain the benefit of the BCMR deregulation for BT Group, and will engage/notify Ofcom as appropriate under the Commitments.

Complaints and Quick Checks

If CPs, other stakeholders or people in BT have concerns about whether BT is living up to its Commitments, the CAO needs to hear from them if it is to be able to investigate the issue on behalf of the BTCC. Where a CP raises an issue, the CAO will seek to work with them to review it in an appropriate manner. The CAO requires certain basic information to be able to effectively review an issue, as set out in its [complaints guidance](#).

Complainants can either raise a formal complaint or request the CAO undertake a “Quick Check” which provides an opportunity for an expeditious initial review by the CAO. In the event of the CAO concluding, as a result of a Quick Check, that there has potentially been a breach of the Commitments, it will put the matter into the breach process. The CAO has also undertaken Quick Checks of its own initiative where initial information received by the CAO suggests this is warranted.

Complaints

The CAO has not received any formal complaints this year.

Quick Checks

The CAO has completed three Quick Checks this year and reported on each to the BTCC and to Ofcom’s OMU. These were:

- yourshare,
- Reappointment of Openreach Chairman and Non-Executive Directors, and
- BT Colleague Board.

None of them have suggested potential breaches warranting a full breach investigation, and the BTCC has seen no discernible trends arising from them. The BTCC also considered whether each of them raised issues of spirit, but was satisfied each was being appropriately managed to alleviate any potential spirit risks. In the case of Reappointment of Openreach Chairman and Non-Executive Directors, we recommended BT make a slight variation to the Governance Protocol to increase transparency, and this was subsequently actioned by BT.

Details of the three Quick Checks have already been in our [BT Compliance Committee bulletins](#). Annex 1 summaries these three cases.

Breaches and Non-Conformances with Process

The CAO decided twelve cases referred to it by BT this year: three breaches and nine non-conformances with relevant policies and processes. None of these were serious in nature and they do not suggest specific trends that are concerning. We also track the completion of remedial actions recommended by BT in response to cases referred to us. Annex 2 contains an overview of these cases.

We have already published details of all cases considered last year in our [BT Compliance Committee bulletins](#). Annex 2 contains an overview of these cases and key trends.

Stakeholder Engagement

The BTCC Chair and CAO Director attended the BT stakeholder event in March 2020 and provided an update on our monitoring activities and our approach to monitoring BT’s compliance with the Commitments.

We have had limited feedback from CPs on day-to-day compliance with the Commitments – and no formal complaints. As indicated above, the feedback received in the course of the CAO’s outreach programme was that CPs are more focussed on the success of the Openreach governance model and Openreach’s ability to operate with greater independence and affording them equal treatment. CPs have commented they feel more comfortable with the way Openreach manages their confidential information and are now less concerned it will be shared inappropriately with other parts of BT.

To assist our monitoring of BT’s assurance activities, the guest speaker at our January 2020 meeting was David Viles, BT Director of Risk, Compliance & Assurance. David provided the BTCC with an overview of audit work undertaken by Group Internal Audit and the assurance work by CRC during 2019/20 including, in particular, in relation to system separation, information sharing and relationship management. He also updated on the status of BT’s mandatory training. David then explained his proposed audit and assurance work for 2020/21 which is directly or indirectly relevant to the Commitments and Governance Protocol. This includes reviewing the operation of the new Commercial Processes Guidance Note, the broadband USO (and associated data management) and the management by BT and Openreach of consultation responses to Ofcom’s Wholesale Fixed Telecoms Market Review 2021-26. We will receive a half year update from Group Internal Audit at our July 2020 meeting.

Should stakeholders have concerns, they may raise them with the CAO by email to CAO@bt.com or using the complaints process on the BTCC’s website.

5. Looking forward to 2020/21

The key elements of the governance framework are now in place. BT and Openreach have established healthy ways of working, and BT has set out its strategic intent to invest significantly in fibre to the premises.

However, the need for robust, rigorous and inquisitive monitoring remains. In the next year the requirement for rigorous financial oversight of BT's investment must respect Openreach's greater independence. The passage of time since the Commitments were adopted means people need to be reminded of their rationale. And the Commitments themselves may need a degree of updating to remain relevant.

The BTCC will meet four times in 2020/21, and will continue to report its work transparently to Ofcom and in the post-meeting updates published on our [website](#).

DCR Outcomes

We will continue to review the ongoing development of the FTTP business case, and the roll-out of full fibre by Openreach in light of the BT Group plc Board's decision to commit to fund Openreach's scaling up of the programme. We are also looking to receive an update on progress made with PIA and with DPA later in the year. As we have done this year, we will take input from Openreach and engage with CPs and stakeholders such as the OTA2 to understand their perspectives on the progress being made. We welcomed Sky as our guest speaker at our May 2020 meeting and intend to hear from another CP later in the year.

Openreach Governance

Three processes (the Strategy Development Process, the Financial Planning Process and the Commercial Processes for Pricing, Products and Projects) are vital to ensuring Openreach has the independence BT committed to. They also ensure BT can meet its Parent Company obligations and drive maximum efficiency in its investments. We will again conduct deep dive reviews to understand how they operate. We intend to look closely at how decisions are taken on any "in life" product or pricing matters brought to BT in accordance with the Commercial Processes Guidance Note, as this will be the first full year of operation of that process. BT's Group Internal Audit also has plans to review the operation of the Commercial Processes Guidance Note later in the year.

BT is enhancing its controls framework by investing in a new company wide finance system which will enhance BT's ability to provide Ofcom with accurate and timely financial reporting. While eminently sensible, this will need to be implemented in ways that respect Openreach's greater independence and ensures appropriate data separation is maintained. The access controls need to ensure BT has sight of Openreach data where needed to fulfil its Parent Company functions, but not more broadly. We will therefore review how the controls are set, and how they work in practice. Similarly, BT has taken steps to ensure rigorous cost control by amending its procurement processes. It is building in measures intended to ensure Openreach's greater independence is still respected. We will monitor the operation of this new process.

In all the above monitoring (and through activities such as the regular CAO/CMO reviews of the record of interactions between the Openreach CEO and the BT Chief Executive as part of the Disclosure Record Process) we will continue to review behaviours of BT people and their commitment to a culture which supports the success of the current governance framework. We have asked the CAO to alert us if they see tension developing in the system.

Commitments Compliance

We welcomed the appointment of a new Senior Manager, Communications Regulatory Compliance, who is enhancing the second line reporting of compliance to the Committee. He intends to continue to build on this further in the coming year. We will also be receiving twice yearly third line updates from the Group Internal Audit Director and an annual review of the effectiveness of BT's compliance training.

We will retain our focus on the information sharing controls which ensure that confidential information is only shared between Openreach and the right people in BT when appropriate to do so and for good reason. We also use the information we see in the Disclosure Record Reports to understand the key discussion areas between BT and Openreach and assess the appropriateness of the BT engagement – i.e. whether it is the level of engagement that could be expected of a Parent Company, and having regard to the status of Openreach.

CRC and the CAO have taken a risk based approach to compliance monitoring, with the prime focus on the Commitments which could impact most on DCR success. Ownership of controls in these key areas is well-established. We are inviting the CAO to work with CRC to extend the framework of control ownership within the business more broadly to ensure greater clarity of control ownership for all sections of the Commitments.

We will also continue to monitor the impact of Covid-19 on day to day ways of working, recognising new norms may require adaptation of old ways of working. We expect putting the interests of customers and the well-being of colleagues first, in line with the spirit of the Commitments, to be the guiding stars (as has been the case so far).

As we enter the third year of operation of the Commitments, BT is considering updates to the Commitments to ensure they remain relevant. We welcome this proactive approach. We will continue to provide input as BT develops its proposals.

Annex 1: CAO Quick Checks during 2019/20

Quick Check No 6 (yourshare)

In June 2019, Ofcom's OMU raised concerns (via the CMO) as to whether the participation of Openreach employees in BT's proposed yourshare all-employee share scheme would be compliant with Commitment 8.2 which, in essence, provides that Openreach employees receiving bonus payments shall not receive their bonus denominated in BT Group plc shares. The CAO agreed to undertake a review in accordance with its Quick Check process.

The CAO's Quick Check found no breach had occurred to date and recommended that, if implemented as anticipated, it would not be a breach of the Commitments. With regard to spirit issues, the CAO noted BT has been transparent with Ofcom and CPs on its plans and recommended it continues to be so. The CAO also considered concerns about potential detrimental impact on Openreach's culture of independence and equal treatment of all CP customers in the long-term. The CAO considered these are theoretically possible, but noted that Openreach has robust KPI monitoring to ensure it delivers equivalence of inputs and equal treatment and can quickly investigate any divergences. Thus the CAO recommended there was no need to open a full breach investigation.

At its September 2019 meeting, the BTCC agreed with this recommendation. It also confirmed it would be willing to review this matter further if there were material changes to the current proposal.

Quick Check No 7 (Reappointment of Openreach Chairman and Non-executive Directors)

The CAO reviewed the terms on which the Openreach Chairman and the Openreach non-executive directors would serve from 1 March 2020: open-ended contracts with notice provisions and annual reviews. Openreach and BT had both confirmed the rationale for reappointments on open-ended contracts was to enable directors to serve different terms and thereby achieve rolling replacement of Board members and so avoiding the issues that arise if the terms of all members run concurrently.

The BTCC considered this report at its January 2020 meeting, noting also that this approach reflects changes to the Corporate Governance Code 2018. The BTCC concluded that the terms on which the Openreach Chairman and non-executive directors are to be reappointed would not diminish the independence of the Openreach Board – rather the evidence provided suggested BT and Openreach want to see the Openreach Board benefit from strong financial acumen and the skills needed to ensure delivery of Openreach's agenda.

Noting that Part A, paragraph 3.14 of the Governance Protocol envisaged initial appointments to the Openreach Board would be of up to three years being extendable for two further three-year periods, the BTCC recommended to BT that it should engage with Ofcom and make a simple variation to the Governance Protocol to clarify the basis on which the Openreach Chairman and executive directors would serve when their reappointments take effect.

Following the meeting, BT amended the Governance Protocol and the updated version, effective from 1 March 2020, was published on the BTCC's website.

Quick Check No 8 (BT Colleague Board)

The Corporate Governance Code 2018 requires BT to enhance the “employee voice” in the boardroom to ensure views and interests at all levels are heard. BT is meeting its obligations by introducing Colleague Board, which will be consulted on ideas, projects and developments across BT’s business and will be able to share thoughts and represent the views of colleagues.

The BTCC considered the CAO’s review of how Colleague Board has been established, including how information is managed and the status of Openreach nominees, to understand how BT intends to ensure Colleague Board operates in line with both the letter and the spirit of the Commitments and Governance Protocol and provided its report to the BTCC’s January 2020 meeting. The BTCC concluded that the structures and ways of working are appropriate, and recommended the CAO keeps this area under review and reports back to the BTCC later in the year as Colleague Board becomes established.

Annex 2: Overview of Commitments cases

During 2019/20, the BTCC reviewed and decided 12 Commitments cases referred to it by BT. Details of these cases are contained in the [BTCC Bulletin](#) issued after each meeting. We found there were 3 trivial breaches and 9 trivial policy non-conformances.

The BTCC uses the following framework to assess cases referred to it for decision:

- **Trivial breach.** A breach of the letter of the Commitments, but not one which is likely to have caused any CP harm (e.g. *information sent by mistake to a person who is not entitled to see it, and then recovered before it was seen*).
- **Serious breach.** A breach of the letter of the Commitments which could well have caused harm (e.g. *BT “interfering with/working on” the Openreach access or backhaul network*).
- **Trivial non-conformance.** Not a breach of the letter of the Commitments, but individuals have not correctly followed processes, but no real harm done (e.g. *an individual is entitled to see Openreach CI but forgets to turn on their supplier marker before receiving it*).
- **Serious non-conformance.** Not a breach of the letter of the Commitments, but individuals have done something which is seriously wrong, where harm might be done, or where the actions are clearly not in the spirit of the Commitments (e.g. *single individuals act contrary to guidance provided to them in the published Code of Practice*).

Across the 12 cases the CAO makes the following observations:

- Breaches: there were no serious breaches and 3 trivial breaches. In each case the information was sent in error, the sender realised their mistake and requested the email be deleted by the recipient shortly after sending, and they self-reported the matter to CRC. The relevant teams have received remedial training and guidance.
- Non-conformances: there no serious and 9 trivial policy non-conformances. 5 cases involved the use of non-standard routes to contact Openreach, none of which were serious and with no evidence of any advantage. In addition, there were 4 trivial non-conformances related to the Regulatory Compliance Marker system (i.e. the people involved were entitled to view the information they had received, but the appropriate marker was not in place). All policy non-conformances led to remedial training and guidance to relevant teams.
- 5 cases involved Technology (all policy non-conformances). 3 instances concerned a Technology person using the wrong route to contact Openreach, and the other 2 instances involved legitimate sharing of Openreach CI but the recipient did not have a live Regulatory Compliance Marker. Remedial training and guidance has since been undertaken in all cases;
- Only one case involved inappropriate sharing of information with a downstream CFU, in the context of preparing a response to a statutory information request;
- A high proportion of cases were self-reported, indicating a willingness amongst BT people to take personal responsibility, but we are cautious about placing undue weight on this, given the overall limited number of cases referred to the BTCC.

During the year we have also considered the absolute number of cases referred to us by BT (which remain similar to last year). On our behalf, the CAO has reviewed BT’s processes for reviewing potential issues to provide assurance these are robust.

Glossary

AOP	Annual Operating Plan
Broadband USO	Broadband Universal Service Obligation
BTCC	BT Compliance Committee, a sub-committee of BT Group plc's Board Audit & Risk Committee, which monitors issues relating to BT Group around the Commitments and Governance Protocol
CAO	Commitments Assurance Office, the BT team which supports the BTCC
CFU	Customer Facing Unit within BT Group
CMO	Commitments Monitoring Office, the Openreach team which supports the OBARCC
CP	Communications Provider
CRC	BT's Communications Regulatory Compliance function
DCR	Ofcom's 2017 Digital Communications Review
DoA	Delegation of Authority
DPA	Duct and Pole Access
FTTP	Fibre to the Premises
ISA	Information Sharing Agreement
MTP	Medium Term Plan
MTP20	The Medium Term Plan as agreed by the BT Group plc Board in May 2020
OBARCC	Openreach Board Audit, Risk and Compliance Committee, which monitors Commitments and Governance Protocol issues relating primarily to Openreach
OD	Organisational Design
OMU	Ofcom's Openreach Monitoring Unit
Openreach CCI	Openreach Customer Confidential Information as defined by the Commitments
Openreach CI	Openreach Commercial Information as defined by the Commitments
OTA2	Office of the Telecommunications Adjudicator
PIA	Physical Infrastructure Access
RAPID	A decision-making model created by Bain & Company, with clear Recommend, Agree, Perform, Input and Decide roles within an organisation.
RCM	Regulatory Compliance Marker
SLA	Service Level Agreement

Offices worldwide

© British Telecommunications plc 2020
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England No: 1800000

