



A 10 Point Plan for a Better Openreach

An industry proposal for reform of the national communications network to better serve UK consumers and businesses

Background

In its Strategic Review of Digital Communications, Ofcom set out its approach to regulating communications markets for the next decade. We share Ofcom's vision for the quality and availability of communications services to UK consumers and businesses, and we welcome its commitment to address the restrictions created by the current governance of Openreach, the division of BT Group that operates the UK's national network.

Together, we represent millions of broadband customers in the UK, as well as the vast majority of Openreach's external revenues. While we continue to believe that full, structural separation of Openreach from BT Group is the best outcome (described by Ofcom as "the cleanest and most clear-cut long-term solution"), we stand ready to work to deliver the plans for reform proposed by Ofcom as its immediate course of action.

To that end, and to deliver meaningful change, reform of Openreach must be robust and swift. Industry has therefore come together to set out a '10 Point Plan for a Better Openreach'. If implemented in full, the plan will create a reformed Openreach capable of delivering better quality services and faster, more reliable speeds for all its customers. Ultimately, this means better broadband and mobile internet for UK households, consumers and businesses – thereby boosting UK competitiveness.

Our 10 Point Plan draws from a number of tried and tested approaches. It reflects best practice as outlined in the UK Corporate Governance Code. Several proposals are modelled on the proven independence arrangements which exist in other UK sectors including energy, media, rail, civil aviation and water markets. And we draw on the experience of other progressive countries such as New Zealand and Singapore, which demonstrate that reforms of this kind this can be achieved without prohibitive cost.

Nothing worth having can be achieved without some effort. However, corporate restructuring of this kind happens every day amongst large companies as they seek to better serve their customers. The creation of independent subsidiaries is commonplace, straightforward and can be achieved in a reasonable timeframe. These industry proposals can be implemented swiftly and will in our view deliver a step-change in the effectiveness of Openreach.

Our 10 Point Plan covers three distinct areas:

- **Reforming Openreach's governance** so that it can act independently.
- **Giving Openreach the tools it needs** to function as a world-leading network operator.
- **Creating an Openreach that delivers** for all of its customers on an equal basis.

Reforming Openreach's governance

1 Openreach is established as a legally separate company

Establishing Openreach as a separate legal entity is a necessary first step to true independence. This will allow it to agree a contract with a customer, employ staff, and own assets, just as any other UK company does. Today, these basic functions are all carried out by BT Group on Openreach's behalf.

To provide clarity for the independent management team, Openreach's Articles of Association must clearly state the company's purpose. For example, this could be *"To operate and manage the fixed-line access network and ancillary network facilities and invest in, develop and provide these on an equivalent basis to all communications providers."*

2 Openreach has its own independent Board

In line with the UK Corporate Governance Code (which all listed companies are subject to), members of the Openreach Board will be appointed via a documented, independent process – possibly, for example, by Ofcom.

To ensure independence, Board members may not be a BT executive, hold any position on any other BT board or committee, or have held any such position in the previous two years. The Chair will be independent of both BT and Openreach, and non-executive directors will make up the majority of the Board. A number of executive directors (such as the Openreach CEO and CFO) will then complete the Board.

3 An independent body to oversee transition and act as an adjudicator

An independent body will need to be established to oversee transition to a legally separate Openreach with fully independent operations. This body will then, on an ongoing basis, act in an adjudication capacity to help resolve issues that are not capable of being agreed between Openreach and providers, including BT Consumer.

Bodies of this type are often set up in other sectors where there may be a need for ongoing adjudication. For example, in the communications sector, a specially appointed adjudicator oversees ITV's advertising sales.

Giving Openreach the tools it needs

4 Openreach owns and controls its assets

Openreach's Directors need to be confident that they can deliver network access reliably and consistently in order to fulfil its purpose. Like any other company, Openreach needs to control assets to achieve this – from the copper, fibre, poles and ducts that make up its network, to the systems and support functions needed to keep the business running.

Openreach will own these assets and functions itself, and employ its workforce directly. It will no longer share infrastructure or personnel with BT Group. Instead, it will have its own finance, legal, strategy, product design and system teams that operate entirely independently of BT Group. It will take responsibility for its own relationship with the regulator and other external stakeholders.

5 Openreach has its own distinctive and independent branding

An independent network operator needs its own brand, just as would be expected for any other major company. Openreach will have distinctive branding that no longer contains any BT element. The highly visible presence of the Openreach brand – whether through the engineers who attend customers' homes, its 70,000 street cabinets, the master sockets in homes and businesses, or the thousands of vans on our roads – will reflect the fact that Openreach is working on behalf of all customers.

6 Openreach is financially independent, with autonomy over its budget

Openreach will control its own finances, from collecting revenue through to distribution of profit. Budget autonomy will help to ensure that Openreach profits are reinvested in extending and improving the network, rather than being used for other purposes. In common with other companies, Openreach will also be able to borrow in its own name and conduct transactions with BT and other communications providers in cash.

Creating an Openreach which delivers for all

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Openreach provides its services and information on an equal basis

Customers of Openreach will be treated fairly and equally. As is standard for companies in this position, Openreach will be required to offer all communications providers the same services, products and information on the same transparent terms, with the same associated processes and timescales.

There will be no exceptions to this obligation. No matter the product, no matter the customer, Openreach will operate on an equal and transparent basis. Any service or information that is made available to BT must be made available to all.

8

Openreach properly consults with all its customers on strategy, capital expenditure and product design

Today, BT Group is not required to consult with all Openreach customers on network and product investment decisions. This means that industry often has little involvement with the development and rollout of some major new products, such as the copper based G.fast.

The new Openreach will have an obligation to engage in industry-wide consultation on matters relating to strategy, plans and development of new services. This is common in other sectors, such as aviation. Any consultation will occur in a transparent and non-discriminatory manner, such as through an industry forum, and enable all customers the equal opportunity to submit proposals and recommendations to Openreach. Openreach would be required to take proper account of all the inputs.

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Openreach is no longer the only provider BT can use

Establishing Openreach as a legally separate entity also means that BT's other operations should become more independent. For example, BT's consumer division can now engage in open procurement processes which allow other operators the opportunity to provide network services to BT. If BT Consumer no longer purchases these services solely from Openreach, it will create more competition in the market, and Openreach will have stronger incentives to invest and improve.

Any agreements that do exist between BT and Openreach – as shareholder, lender, and customer – will be governed by arms-length contracts that provide essential transparency.

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Openreach does not inhibit investment by independent network operators

One of the key business risks facing rival infrastructure providers without scale is that their networks are 'overbuilt' by Openreach, reducing the return on their investments. This makes it difficult to raise capital and reduces the prospect of true network competition.

In areas where smaller alternative operators have rolled out fibre to the premises networks, the independent Openreach will be required to demonstrate sufficient commercial rationale before allocating resources to 'overbuilding' those networks. This will stimulate investment by giving alternative operators more certainty on the risks attached to their investments.

