

Mid-year update

In the six months to 30 September 2021, we achieved a significant milestone in transforming our business and executing our strategy to focus on growth as a regional full fibre operator with completion of the sale of the National ICT Business.

We have also continued to invest in new systems to support operating performance improvement across all areas of our regional business.

These changes to the business have been delivered while continuing to manage ongoing operational, commercial, and personal challenges presented by Covid-19. We are grateful that despite the pandemic, our employees have maintained a positive can-do approach and have demonstrated a tremendous capacity to weather uncertainty and accommodate changes in the business and in their personal lives.

Our priorities continue to be the wellbeing, health, and safety of our employees and ensuring that all our customers are connected and supported, especially during periods of working and schooling remotely from home, while providing additional assistance for our vulnerable customers who need it most.

The leadership team has been enhanced during the first half of the year with Sam Booth joining us as CFO in July bringing experience in the telecom sector and transformation to lead the Finance team through our next phase. Sam's appointment is key to our efforts in improving the efficiency of our operations as we realign the business following the National Business sale and focus our efforts on regional growth.

Progress on strategy

National business

The sale of our National ICT Business to Nasstar was completed at the end of July, which was a major milestone in our strategy to focus on being a regional provider of full fibre broadband. The sale process was supported by many teams across the business and involved detailed technical and commercial work. We would also like to thank all the employees that transferred to Nasstar for their hard work whilst at KCOM and their continued support through the transaction.

Work has progressed on separating the National ICT business and realigning our remaining business, and this will be on-going through the remainder of this financial year and into the next.

Network expansion

The expansion of our full fibre broadband network has progressed with the help of our own Internal Construction Teams and is in line with our plans. At the end of the period the first phase of our expansion had passed premises in more than 20 new towns and villages in East Yorkshire, North Yorkshire, and North Lincolnshire with significant proportion of homes from the build in Bridlington, Barton, and Selby now released for sale. Further, work is underway in Leconfield, Cherry Burton, Goxhill, Brigg, Broughton, Scawby, Hibaldstow, Kirton in Lindsey, Barrow upon Humber, Epworth, Messingham, Crowle and Haxey.

After a successful demand-led trial in part of North Newbald last year, our teams are now working with several other rural villages in North Lincolnshire where we are able to build subject to sufficient demand.

This first phase of our full fibre network expansion across the region has been recognised as a stand-out in the industry being named the Telecoms Project of the Year at the National Technology Awards in September.

These awards are held to recognise outstanding achievements across a wide range of technology industries and to be singled out from all the work currently underway across the UK in the telecoms sector is a huge triumph. This recognises the innovation and changes in approach needed across the business from all the teams in Networks, Wholesale, Digital and Retail helping to build the network, deliver services, and ensure its commercial success.

Wholesale capability

The Wholesale team continues to focus on investing in systems capabilities with the benefit of direct oversight of the devolved dedicated IT team while new sales resources are supporting wider market focus, closer engagement with communications providers and changes in the service offering.

Having run trials with communication providers in parts of the network expansion over the past year, wholesale services are now being offered across more of the expanded network footprint.

The team continues to meet with these new customers on models for a more effective partnership and what approach and service offering best meets their needs.

Retail performance

The Retail team have focused their new Digital team on improving the functionality of customer service channels with new online order management capabilities now in place and a new voice system to support customer care near completion.

This is a key part of a broader development of our customer care and sales functions which includes a new approach to door-to-door and venue site sales and additional recruitment and training.

The customer care teams started the roll-out of Retail's new enhanced and simplified service offering in the first half of the year. The migration of customers to this new portfolio will be completed in the third quarter.

Impact of Covid-19

Covid-19 rates of infection remained high in the Humber region. While some guidelines were relaxed and the government encouraged people in general to return to work in offices, this had the caveat that businesses do so in a way which ensures employees are protected through observing Covid-safe work practices.

Throughout the pandemic, our priorities have been the wellbeing, health, and safety of our employees, ensuring the continuity of essential connectivity services and supporting our customers. These priorities have also shaped our plans for a return to the office.

As a consequence, the business adopted a cautious staged approach to unwinding the work practices and processes put in place during the pandemic.

The priority for change has been driven by business needs and includes those core business operational teams which benefit most from working together in the office. This has been done while keeping in place measures such as social distancing and monitoring air quality in our work locations.

While this is a welcome development, it still presented a further period of change and uncertainty and an ongoing need for a flexible approach to work. To address this uncertainty and manage the change we have been supported by the conscientious efforts throughout the period of our Pandemic team, our Wellbeing, Health and Safety team, Estates, the People team, and colleagues across the business in providing employee support.

Early in 2021, we restructured our procurement function, and the new team has been instrumental in helping the business manage several supply chain issues over the first half of the year. The business has continued to manage sourcing of customer premises equipment closely with forward orders in place to cover business needs to 2023.

ESG focus

Last year we submitted our environmental, sustainability and governance (ESG) performance data to GRESB for assessment as part of their global ESG benchmark. At 70 our score was 9 higher than the GRESB average. This year we achieved a score of 86, which is 14 higher than the GRESB average.

The assessment covers many aspects of ESG and work undertaken by many functions in the business and the large increase is the result of an improvement in all areas and reflects the breadth of change at KCOM.

The business has continued to launch new initiatives to improve our ESG performance and we are confident of improving our assessment next year.

Although we have made great progress reducing CO2 emissions, we still hope to do more in the next assessment. In the year ended March 2020 the business usage of energy produced 10,570 tonnes of CO2. In the year ended March 2021 this fell to 2,643 tonnes. This 75% reduction in CO2 emissions was largely due to a change in supply to 100% renewable energy. During this year we have commissioned solar cells on the roof of our buildings at Salvesen Way which will bring further reductions in the next assessment from lower consumption.

The company supports employee volunteering as it allows employees the chance to contribute directly to important community work. It also provides opportunities for employees to learn skills outside their usual work roles and can be a valuable source of new experiences and personal development. This year we were proud to have launched a new volunteering scheme to give all employees entitlement to two days for volunteering each year.

The success of the new volunteering scheme can already be seen with many employees taking the opportunity to volunteer at local charities and foodbanks. This has included delivering food packages to families in need and packing Christmas toys for children in care among many other initiatives. The scheme has been well subscribed to by staff from both Retail and Wholesale and created much positive sentiment both internally and externally.

To support further improvements, we have created a new Head of ESG role to co-ordinate our efforts into a focused plan and provide oversight and support for activities across the business.

Wholesale Fixed Telecoms Market Review

Ofcom has recently published the conclusions of the Hull Area Wholesale Fixed Telecoms Market Review (WFTMR) 2021-26. This is a periodic market assessment, considering the state of competition in the defined geographic region of Hull and whether and how market participants should be regulated to encourage competition and protect consumers, whilst promoting investment in future-proof gigabit-capable networks. Consistent with previous reviews, Ofcom continues to identify that KCOM has significant market power in Hull and has updated the products KCOM is required to offer at a Wholesale level to reflect changes in technology and further promote competition in the fibre market. Certain other legacy products, including copper-based technology have been deregulated (subject in some cases to a transitional period) and removed from KCOM's regulatory reporting requirements.

KCOM is supportive of its regulatory requirements, ensuring the best outcomes for our customers and for the region, and is committed to ensuring the required products are made available in the timeframes required.

Looking ahead

After much change in the period, the leadership team are fully focussed on realigning the business, rolling out full fibre to more of our local residents, and ensuring the future growth of KCOM.