RMG00000034

Royal Mail Holdings
Minutes of the Investment Committee
Dated 18th July 2006

Core Members	Invited Members:	Apologies
Adam Crozier	Paul Tolhurst	
Ian Griffiths	David Smith	
Martin Gafsen	Ian O'Driscoll	
Frank Schinella	Peter Corbett	
Alan Cook		
Derek Foster		
David Burden		
Ninian Wilson		
Doug Evans		
Michaela Jordan (Secretary, Letters)		
Adrian Terry (Secretary, Group)		

1. Meeting Opened – 8.30am

2. Minutes from the Previous Investment Committee

Tabling of Minutes of the Investment Committee, IC, 20th June decision – Approved.
The IC requested that David Burden, Ninian Wilson and Doug Evans were added to the Investment Committee's membership.

3. Outstanding Issues

Tabling of Outstanding Issues from previous Investment Committee meetings, the following points were raised:

Note: Ref:	The IC requested that a list of the key outstanding actions be collated and presented to the Business Unit Managing Directors.		
Action:	Completed By Michaela Jordan 28th July 2007		0607-01

The Investment Director informed the Committee that a large proportion of the cases being presented had been submitted late into the Investment Team. The Committee noted the issues this causes and emphasised the need for all cases to have sufficient review. The Committee suggested charging a "fine", payable to the Mails Benevolent Fund, of £10 for all late papers. The Group Finance Director informed the Committee that going forward a three month rolling agenda would be being presented.

4. Year to Date report

Discussion:	The IC noted the report.
Issues:	None.
Decision:	Noted.

5. Investment Cases

The following investment cases were discussed:

Project Title	Division	Request (£m)	Type of investment
Breakthrough	PFW	£9.0m	Replacement
Transport Legislation	RML	£5.0m	Compliance
Packets Strategy	RML	£0.6m	Revenue
Horizon Update	POL	£127m	Replacement
Genesis	RMG	£4.5m	Cost Focus
Project Emily	RMG	£12.5m	Other
GLS Austria – Replacement Depot	GLS	€2.7m	Replacement

The decisions made by the Investment Committee were as follows:

5.1 GIA200603/06 – Breakthrough

David Smith	Acting Managing Director Parcel Force Worldwide
Discussion:	The Investment Director reminded the Committee of the actions from the previous meeting: • Review of the Quarter 1 trading performance of Parcel Force; and • Gain greater certainty around the costs and benefits of the systems. David Smith informed the Committee that subsequent to the additional scoping works authorised at the March Investment Committee Parcel Force are confident that: • 20 legacy systems can be switched off as a result of new system; • revenue benefits can be achieved; • the project can be delivered to the agreed timescales; and • head count savings can be achieved as a result of the system capability. Whilst discussing the operational benefits of the new system, David Smith noted that there still remains a risk to delivering the savings as until the system is in operation, it is impossible to gain a greater level of certainty around the assumptions. The Committee noted that Quarter 1 year to date results were on budget, Regional Revenues were up £2.1m and new accounts were running at c.£8.6m against a full year target of £12.6m. David Smith informed the Committee of his confidence in the project and the assumptions in the business case. The Committee noted that the benefits of the scheme related to improving operational efficiency and lowering head count, and queried the state of negotiations with the CWU. David Smith informed the Committee that although the CWU hadn't given formal approval to the proposals, they had voiced their support for what the system was trying to achieve, and reminded the Committee that the proposal included a 1.5% additional pay award as a cost of transition. It was noted that IT element of the system delivered three streams of benefits: • avoided annual refresh costs of £3m

	• removal of the Halcon and Poise systems saving c.9 FTE's pa • simpler IT system that required a smaller team to manage Whilst discussing the benefits, it was confirmed that all the systems being made redundant were PFW systems, rather than Group wide ones. The Committee noted that at the initial presentation there were concerns regarding the sales pipeline of PFW which, given the current performance of new accounts, seem to have been mitigated. David Smith informed the Committee that c.75% the project team are PFW employees and therefore did not add into the PFW cost base. The Committee requested that David Smith spoke to Ninian Wilson and Doug Evans regarding the terms of the contract.

Issues:	
Decision:	Agreed

Action:	Gain the input of Group Procurement and Group Legal regarding the terms of the contract.	**David Smith**	0607-02

5.2 GIA200607/01 – Road Transport Directive (RTD): Duty Structures, Management & Compliance Monitoring

Paul Tolhurst	Network Director
Steve Cameron	Territory Director North
Discussion:	Paul Tolhurst outlined to the Committee the key strands of the RTD initiative and the constraints placed on Royal Mail through the introduction of legislation to limit driver hours, for those driving vehicles over 3.5 tonnes, to a maximum of 48 hours per week. Paul Tolhurst explained that planning assumptions for the implementation timescales for the portfolio of transport legislation cases were not accurate, as Digital Tachographs had fallen back, whereas RTD would take effect earlier than anticipated. Paul Tolhurst explained that a team of people were required to create compliant duty structures and because of the data requirements of the Vehicle & Operator Services Agency (VOSA), a system was needed to allow tracking of the hours worked by drivers. The project team had considered a number of solutions and had decided to use the TRMS system, which would align to the TRMS system currently being trialled at Leicester Mail Centre. The IC noted that recurring cost in the Areas, was as yet unquantified, and asked when a complete view of all the strands of the project would be available. Paul Tolhurst advised that the team would have to assess duty structures in detail and, therefore, it would be the end of October 2006, before the complete situation would be known. Negotiations with the CWU would then start. A second business case would be presented, which would conclude on the number of additional drivers required and explain what had been done to minimise the requirement.

	The IC queried the level of project team costs of £2.1m. Steve Cameron noted that the team would include 71 planners, one per mail centre, for 36 weeks. Members of the team would be pulled out of their line role and the costs noted were required to backfill those jobs and could not be avoided. Doug Evans advised the team to contact the Road Transport Association to understand lessons learned from the earlier introduction of RTD to the Logistics industry. Paul Tolhurst confirmed he was already in contact with them. Doug Evans noted that agency drivers would need to be managed for risk and costed. He advised weekly reporting on the progress of the case to the LET because it was imperative that the business successfully implemented RTD by the 1 April 2007 deadline. He advised the team to accelerate the implementation by one month to March 2007, in order to learn lessons during a dummy run. The Logistics industry had gone live early to test their systems and processes and this had served them well. David Burden noted that the WPP for system costs would only be available at the end of July and requested that if the variance from the estimate of £2.6m was greater than the 5% tolerance allowed by the Investment Policy, that the increase be dealt with by Ian Griffiths through the LET. The IC made it clear that Ninian Wilson should advise on procurement matters and Doug Evans on legal aspects of the case.
Issues:	Must ensure timely implementation.
Decision:	Approved.

Action:	Engage Ninian Wilson on procurement matters.	**Paul Tolhurst**	0607-03
Action:	Engage Doug Evans on legal matters.	**Paul Tolhurst**	0607-04
Action:	Institute weekly progress reporting for LET.	**Paul Tolhurst**	0607-05

5.3 GIA200607/10 – Packets Strategy – Scoping Funding & Safeplace Trial

Carl-Gerold Mende	Director RM International
Terry Solesbury	Hd Operational Systems M'ment
Discussion:	The Investment Director noted that the business case had been submitted too late to go to the July LET and was being presented at the IC as a decision was required urgently. Carl-Gerold Mende explained the funding request. The IC asked for clarification of the trial success criteria. Carl-Gerold Mende noted that: • measurements would be taken weekly to manage any liability issues through compensation requests; and, • the ultimate success criterion was the increase in first time delivery, which would create a consequential reduction of workload in delivery offices. Re-deliveries would be counted in order to quantify savings.

	The Group CEO queried the level of invoices from McKinsey consultants and considered these invoices had been incorrectly tagged/labelled as work relating to the Packets Strategy. The IC noted the missing concurrences and requested that they be provided to Letters Investment. The IC asked whether there would be any further funding requests. Carl-Gerold confirmed that the request for £577k would be sufficient to cover the trial, but future business cases would be expected to cover new products e.g. Techpack. The IC raised IB charging matters and requested that they be informed of topics being discussed, on which decisions had yet to be taken. It was noted that if DSA was introduced for Packets, it was imperative to ensure the price charged to internal business units was right, to avoid cannibalising our own business. Before we could price for a service accurate costing information would be required.
Issues:	IB matters.
Decision:	Approved

Action:	Provide outstanding concurrences to Letters Investment.	Carl-Gerold Mende	0607-06

Action:	Provide IC with list of IB topics on which decisions are yet to be taken.	Carl-Gerold Mende	0607-07

5.4 GIA200607/06 Horizon Next Generation

Peter Corbett	Post Office Limited Finance Director
Ian O'Driscoll	Commercial Director
Discussion:	Peter Corbett informed the committee that the IT solution and benefits of the scheme were the same as that presented previously and that they were requesting authority to enter into a full contract in advance of the securing of long term funding from Government. Whilst highlighting to the Committee the addition of a conditionality clause into the contract allowing POL to terminate the deal should agreement with Government not be achievable, Peter Corbett noted that that the non-cancelable commitments up until 2010 of the new deal were almost equal to those of the existing contract at £437m (HNGX) vs. £427m (SAWA) but could decline to £418m if the POL network reduced by 5,000. In response to a question from the IC regarding committed capital, Peter Corbett responded that £35m had been committed to date for 2006/07 with requirement for another £32m in 2007/08 fundable from POL cash flows. Peter Corbett noted that beyond 2007/08 a funding agreement from Government would be needed. The IC queried the implications of terminating the contract in March 2007. In response, the POL Finance Director noted that the termination costs under

	both contracts would be the same at c.£80m under the existing contract and c.£78m under the new one. It was also confirmed that POL have the right to revert to the existing contract at any point up until February 2007. The Committee queried the funding position of POL in 2007/08, the POL Finance Director confirmed that under a new Government funded arrangement POL would have sufficient cash to fund the expenditure. In addition, POL would have sufficient funding under "manage for cash" basis if the project was deemed a top priority. Peter Corbett also confirmed that POL was not reliant on the £150m from RML reserve. The Group Technology Director queried the telecom element of the new contract, Ian O'Driscoll replied that under the revised terms POL would be able to benefit from any potential savings from economies of scale by removing the lines from the Fujitsu requirement and bundling the procurement of these with the rest of the Group requirements. The IC queried the alignment of the new contract with the developing POL strategy, in response, the POL Managing Director noted that the purpose of the new contract was to reduce costs, rather than add functionality. The IC noted that should the new contract not be terminated in 2010 then it would generate savings of £44m, versus the existing one, per year. Ian O'Driscoll highlighted to the Committee that under the terms of the new contract the variable cost element had been increased, enabling greater cost savings to be achieved should any branch re-organisation occur. Under the existing contract minimal savings would be available. The IC queried the nature of the Managed service agreement and the POL Finance Director noted that it was now unlikely that this route would be undertaken.
Issues:	Depreciation impact of the new contract
Decision:	Approved the paper for submission to the August 2nd RMH board subject to resolution of the above - which will be incorporated in the final board paper.

Action:	Confirmation of the depreciation impact of approving HNGX	**Peter Corbett**	0607- 08

Action:	Break down of the year-by-year impact of the new contract in above and below the line terms. Summarise the non-cancellable commitments up until March 2007 and 2010.	**Peter Corbett**	0607- 09 Completed

Action:	Clear articulation of the benefits of the new deal for Fujitsu	**Ian O'Driscoll**	0607- 10 Completed

Action:	Clear explanation of the options available to RMG and highlight the ability of the Board to revert to the old contract should Government funding not be secured by February 2005.	**Peter Corbett**	0607- 11 Completed

Action:	Review of the contract by Doug Evans and Ninian Wilson.	**Peter Corbett**	0607- 12 Completed

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Action:	Sensitivity on the implications of changing the POL branch network by 5,000.	**Ian O'Driscoll**	0607- 13 Completed

5.5 GIA200607/07 Project Genesis

David Wakefield	Commercial Finance Director
Discussion:	David Wakefield joined the meeting and outlined to the Committee the goals of the project; save money; test and confirm CSC's capability; improved Information System delivery; and the avoidance of litigation. The Committee noted that CSC had recently brought in a more capable team that it had begun to work more positively with RMG. The IC queried whether the benefits could be delivered without investment. David Wakefield responded that although technically some of the benefits did not need investment, under the terms of the contract CSC were not obliged to pass on the savings. As the current contract is unprofitable for CSC it would be almost impossible to extract further cost savings from the current contract. David Wakefield informed the Committee that under the terms of the existing contract CSC were contractually entitled to make an 8% margin and, should returns fall below this level, were contractually entitled to a remedy. The IC queried the confidence of the team in delivering £5m of savings in the current Financial Year. The Group Technology Director informed the Committee that the savings for 2006/07 had already been agreed and noted the importance of the projects to CSC to give them a greater level of flexibility and enable them to return the contract to profitability. The Committee noted that c.80% of the costs could be viewed as business as usual with the remaining costs being used to enable future developments and projects. Whilst discussing the nature of the spend, David Wakefield informed the Committee that all projects would, individually, be subject to the normal Investment Appraisal and, although a number generated a return in their own right, should be viewed as enablers for the future strategy and application portfolio reviews. David Wakefield outlined the options available to RMG: • Do nothing – CSC exit at the end of the contract • Use other panellists – could increase costs and would still need to use CSC • Exit – costly option and the same problems would still require resolving The Committee noted that the costs represented current best estimate and part of the project included two external recruits to aid in the procurement and project management processes. Whilst discussing the current contract the IC noted that it contained options to break in 2008 and 2010 by giving notice in 2007 and 2009 respectively. The Committee queried whether there was an alternative if both sides were unhappy with the contract re-negotiation. In response David Wakefield informed the Committee that this was being currently worked up. The Group Technology Director noted that the current exit costs were high, and that the Genesis investment should remove some of the issues that need to be re-

	negotiated. The Committee agreed with the aims of the project and requested that further clarification be provided on the exact nature of the spend, what is true spend and what is re-allocating internal resources.
Issues:	
Decision:	Agreed and requested that the project be classified as business as usual expenditure as the project benefits should out weigh the costs in the current year.

Action:	Present an update on the contract renegotiation and the alternatives to CSC.	**David Wakefield / David Burden**	0607-14

Action:	The Investment Committee should agree all investment decisions on the re-investment of the delivered savings > £1m.	**David Burden**	0607-15

Action:	Further analysis of the gross savings and what proportion is being given to CSC and what is being re-invested.	**David Wakefield**	0607-16

Action:	Further clarification be provided on the exact nature of spend, analysis of the elements are truly incremental and a list of the Prove Projects.	**David Wakefield Completed**	0607-17

5.6 GIA200607/0 Project Emily

Tony McCarthy	Group Human Resources Director
Steve N Taylor	Group IT
Discussion:	Steve Taylor and Tony McCarthy joined the meeting and outlined to the Committee that the project would enable the broadcast to every office in the network simultaneously. The IC queried the equipment each office would receive and the costs of the project. In response, Steve Taylor outlined that each unit would receive a wall mounted plasma or LCD screen, CPU box and Broadband connection. David Burden noted that the system would enable one way high quality video and two way responses. The IC noted that the system would go into the RMG network of offices including the 500 Directly Managed Branches of Post Office Limited. Whilst discussing the scope of the project expenditure, the IC noted that the project costs excluded content and noted the £2.4m p.a. ongoing running costs. The IC discussed the roll out of the project and the Group Technology Director noted that the key risk to delivery was the physical installation into 1,200 sites with secure wall mountings and Broadband access. Steve Taylor informed the Committee that the site survey costs were c.£348 per site, excluding power and cabling, with ROMEC being the preferred supplier. The Committee queried the supplier tendering process, in response Steve Taylor noted that Fujitsu would be the preferred supplier given their track

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	record with Horizon and noted that Group Procurement were reviewing other potential suppliers. The Committee noted that the costs of £3,000 per site were too high and requested that additional negotiations be completed. The Committee query the policy regarding third party access to the channel, Tony McCarthy stated that the channel was purely a management tool and no third party access would be granted. The Committee debated the issues surrounding the ability of the Group to control the content in individual sites if local management had the ability to add content. The Committee requested that the ability to add local content is removed and the network is used a central communications channel only. Whilst discussing the other Companies which use such systems the Committee requested that we liase with British Airways so that we can learn from their experiences. The Committee requested that the proof of concept was developed before any mass roll out was completed. The Committee stated that the screens should be located in common areas such as canteens or work group areas. Steve Taylor highlighted that there are options to provide toughened screens and multiple screens for the larger units. The Group Technology Director highlighted the issues around the roll out of the programme and the importance of authorising sufficient capital to enable the site surveys to be completed. The Committee agreed to the importance of completing the site surveys and requested that in parallel further negotiations are completed.
Issues:	Additional negotiations to further substantiate the costings of the system.
Decision:	Agreed to authorise £1m (exc. VAT) to enable the completion of the proof of concept and sites surveys. Update to brought to the Group Executive Team

Action:	Remove the ability for local operators to add content.	**Steve Taylor**	0607-18 Completed

Action:	Increase the robustness of the system and project costings.	**Steve Taylor**	0607-19

Action:	Open discussions with other Companies who use such systems the so that we can learn from their experiences.	**Steve Taylor**	0607-20

5.7 GIA200607/09 GLS Austria – Villach Depot Replacement

Discussion:	The Investment Director outlined to the Committee that lease on GLS Austria's depot in Villach, Southern Austria was about to expiry and they wished to build a replacement depot in Finkenstein. The Committee noted that the costs of the new depot would equal the EBITDA in 2006/07 for GLS Austria and the importance of the depot should GLS wish to operate in Southern Austria.
Issues:	None
Decision:	Agreed.

5.8 GIA200607/05 Chippenham and Corsham Delivery Office Replacement

Discussion:	The Committee noted that two Delivery Offices were being disposed of for £1m and a new one being purchased for c.£2m. The Committee queried the overall strategy for the region and whether the scheme as presented represented the best long-term strategy for the area. The IC requested that the ETE policy revision be presented to the Committee. The IC noted that the trend for replacing buildings with more expensive ones was contra to the Group's strategy and requested that Property Holdings and the Operations team review the specifications and requirements.
Issues:	None
Decision:	Not agreed.

Action:	Revise the ETE policy and present the findings back to the IC.	**Ian Bond**	0607-21

Action:	Review the long-term strategy for the Chippenham area and assess the ability to amalgamate further DO's into the unit.	**Property Holdings** **Alan Smith-Hill**	0607-22

Action:	Review the specification of the new building	**Property Holdings** **Alan Smith-Hill**	0607-23

6 Other Items of Discussion

6.1 Balance Sheet Re-structuring

Discussion:	Martin Gafsen introduced the paper and the Committee noted the contents.
Issues:	
Decision:	Agreed

Action:			

6.2 Group Investment Quarter 1 Report

Discussion:	Martin Gafsen introduced the paper and the Committee noted the contents.
Issues:	
Decision:	Agreed

Action:			

6.3 Group Investment Quarter 1 Report

Discussion:	The Committee requested that the paper be re-presented to the next meeting.

7. Meeting Closed – 10.30 am