

DAVID MACBRAYNE LIMITED

**MINUTES OF BOARD MEETING HELD AT 200SVS OFFICES, GLASGOW,
AT 10 A.M. ON WEDNESDAY 24 JUNE 2015**

Present: Mr D C McGibbon, Chairman
Mr S Hagan
Ms P J D Stark
Mr J Stirling
Mr A V Tait
Mr M Dorchester
Mr R L Drummond (part-time)

In attendance: Mr R Hadfield, Scottish Government (Assessor)
Ms J I Beckett, Head of Finance, CalMac Ferries Ltd (part-time)
Mrs V Ainscough, Bid Manager (part-time)
Mr C P Paterson, Board Administrator

1. PRELIMINARIES

1.1 Safety moment

Mr Dorchester noted that the imminent industrial action gave rise to the Company needing to be aware of who was likely to strike. The safety of vessels where some staff were not working would need to be closely assessed, especially for those remaining on board.

With a different focus, Mr McGibbon noted a road sign in Europe which promoted safer driving viz "Keeping your distance = your safety".

Welcome

Mr McGibbon extended a welcome to Mr Hadfield.

Apologies for absence

There was an apology for absence from Mr Easton. Mr Drummond was attending another meeting, but was expected to join this meeting at a later point.

Declarations of interest

There were no further declarations of interest, other than those previously made and known to all Directors.

2. MINUTES/MATTERS ARISING

Approve Minutes of Board Meeting held on 22 April 2015

4 Other

In regard to the Fraser of Allander Economic and Social Impact of CalMac Ferries Ltd on Scotland Report, Mr Dorchester indicated that he would circulate the Company's press release to the Board.

7 Any other business

The Board discussed the potential exposure to a s75 debt being triggered if CalMac Ferries ceased to operate. Of particular focus was the level of awareness within Government of the debt potential and the Board will consider an approach to the Minister for Transport and Islands, Derek Mackay, MSP.

The Minutes of the Board Meeting held on 22 April 2015 were approved.

3. CHAIRMAN'S REMARKS

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Hadfield left the meeting.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Dorchester noted that, due to the imminence of Industrial Action, it was likely that both he and Mr Hadfield would have to step out of the meeting to take phone calls.

Mr McGibbon noted that consultation with staff and Trustees was currently in progress, with regard to proposed Pension Fund benefit reforms.

Mr Paterson indicated that, as a Pension Fund Trustee, there could be a possible conflict of interest for him, if the Board wished to discuss the matter.

Mr Paterson left the meeting.

The Board discussed the current consultation process in regard to the proposed Pension Fund benefit reforms.

Mr Paterson and Mr Hadfield returned to the meeting, accompanied by Mrs Beckett.

Mr McGibbon noted the ongoing programme of Network Visits. The Board discussed the different reactions and responses from various communities, but the Board noted the value in attending all of the meetings. The input and contribution of Community Councils was also noted by the Board.

Mr Dorchester thanked the Board for the efforts in attending the meetings and noted that public visibility of the Board is important.

Mr McGibbon noted that a review of the Board meeting structure would be addressed later in the meeting. He thanked Ms Stark and Mr Tait for their efforts in producing the paper.

Mr McGibbon noted that the Board has to address how to retain key personnel during the current critical bid phases and 2016.

Mr McGibbon noted that he and Mr Dorchester had been presented with a ship model of the MV Loch Seaforth, at Stornoway Terminal, by the CMAL Board.

Mr Dorchester gave an update on the Industrial Action. He noted that work-to-rule was being applied tomorrow (Thursday) and that Strike Action was taking place on Friday. There was considerable effort being expended by CalMac on managing a complex operational challenge. He outlined absence management, PR and the prospect of vessels sailing with reduced crew numbers. He also set out his view of the position with the Unions and the progress of consultations.

4. GROUP REPORTS

4.1 GROUP CEO UPDATE

Mr Dorchester presented the report and indicated that he would highlight the main points of interest.

1. Operational Performance Update

1.1 Safety & Environment

Mr Dorchester noted that the safety statistics showed a slight increase. The SES Department had not expressed concern over the statistical results and it was noted that robust examination of the statistics would be conducted.

Mr Dorchester extended an invitation to Board Members to attend the Directors' Safety Meeting, usually held on Monday mornings.

Mr Dorchester noted that responsibility for the Ullapool noise issue seemed to be getting pushed towards CalMac. He noted that other parties should be approached to offer solutions to the matter. Unfortunately, potential solutions suggest extra cost to CalMac.

1.2 Operations

1.2.5

Mr Dorchester noted that a report on the deployment and suitability of MV Isle of Lewis at various ports around the network was being prepared and would be circulated to the Board when completed.

1.2.6

Mr Dorchester noted the development of the Forward Planning team. A series of meetings had been held on a Monday and he extended an invitation to Board Members to consider attending.

The Board discussed significant operational events in the near future, including the closure of Wemyss Bay, RET introduction on routes and the effect on carryings, as well as bad weather.

Mr Dorchester left the meeting.

The Board discussed the Ullapool/Stornoway route and its timetable. The potential of using the MV Isle of Lewis at weekends would require carryings and demands to be examined.

The Board also discussed the Gigha service and favourable community feedback.

Mr Dorchester returned to the meeting.

1.3 Customers

Mr Dorchester noted the telecoms statistics and commented that it had been a difficult period with a number of disruptions. He extended an invitation to Board Members to visit the Contact Centre, as their support would be welcomed.

1.4 Our people

1.4.1

Mr Dorchester added some background information to the summary of the current industrial action.

1.4.3

Mr Dorchester noted that the Executive team was currently examining how best to address the departures of two Executive team members. This added to the difficulty of running the business and was an uncomfortable period for the team, especially during the Bid period and the additional delays.

Considering the Bid ITT delays, the Board discussed the matter with Mr Hadfield. He confirmed that the process was constructed for a number of bidders, with an element for delay designed into the timetable.

1.5 Technical

1.5.1

Mr Dorchester noted that the fleet had sustained a number of technical issues recently, more so among the older vessels. It was noted that the vessels are worked hard during the summer season.

The Board discussed the issue, noting that there could be consideration on whether or not capital should be spent on new vessels, or on upgrading existing vessels. It was also important to consider the concurrent upgrade of infrastructure.

1.6 Competitors and Regulation

1.6.1

Noting the tragedy of the cruise ship capsizing in China, in a sudden and localised violent weather episode on 1 June, the Board discussed localised weather effects and the public reaction to weather cancellations, when they are unable to understand why. The Board noted that more technology is now employed gathering weather information to help support non-sailing decisions.

2. Strategic Developments

2.2

The Board noted that the draft ITT had been issued and Mr Dorchester confirmed that he would send a copy to the Board and Mr Hadfield.

3. Commercial

3.3

The release of the Fraser of Allander Economic and Social Impact of CalMac Ferries Ltd on Scotland Report had created the opportunity for discussions with local councils on local economy and spend.

3.5

The Board requested a brief on the current Marchwood position. It was noted that the preferred bidder status of the Joint Venture was under challenge.

4. Outlook

Mr Dorchester took the Board through key challenges that will be focused on.

4.2 GROUP FINANCE UPDATE

Mrs Beckett presented the report.

2. Key Group Financial Numbers to 31 March 2015

Mrs Beckett noted that extract financials for 2014/2015 were being provided in advance of the Annual Report. A Group loss of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** was noted against a planned loss of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**. Farebox revenues had been higher than expected.

Mr Hadfield left the meeting.

Mrs Beckett noted that some timing issues also formed part of the report. Some notable factors in relation to costs were emergent works for a number of vessels, crew costs and winter timetable disruptions. Reduced spend resulted from the delay to MV Loch Seaforth being brought into service and a positive fuel result of some **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**.

The Board discussed the underspends and positive variance effects on results.

Mr Dorchester left the meeting.

Mrs Beckett noted the pattern of business changing, which had affected the commercial carryings results. She noted that the Board would be advised, in due course, on Marchwood expenditure.

3. Group Balance Sheet as at 31 March 2015

Mrs Beckett noted that the cash balance at the end of the financial year was close to plan. The debtors result was higher than planned due to projects and delayed milestone payments.

4. CHFS Contract year 8 update

Mrs Beckett noted the key variances driving the [FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)] positive result.

5. Gourock-Dunoon Contract year 4 update

Mrs Beckett noted that the contract management fee had been reviewed in line with the overall review of inter-company management fees to Group companies.

6. 2015/2017 DML Group Corporate Plan update

Mrs Beckett noted that the RET scheme and its introduction to new routes was driving the farebox assumptions.

Mr Dorchester returned to the meeting.

Mrs Beckett noted that significant expenditure items would include a full year's impact of MV Loch Seaforth's running costs, 2010 STCW Manila amendments training costs, CHFS bid costs in Support Services, the transformation programme, pay awards, CHFS lease increases and third party pier fees increases.

Mr Hadfield returned to the meeting.

6. ANY OTHER BUSINESS

6.1 Project Titan

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

The Board discussed the bid submitted by the primary contractor and other options.

Mr Dorchester left the meeting.

Mr Hadfield noted that Mr Hanning had updated Mr Laidlaw on the current project position.

Mr Dorchester returned to the meeting.

Mr Dorchester indicated that he would continue to keep the Board updated on the matter.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

6.2 Board Meeting structure review

Mr McGibbon introduced the paper provided by Ms Stark and Mr Tait. Mr Dorchester thanked them for the opportunity to improve meeting structure.

Mr Tait indicated that the rationale behind the paper was to identify 'hot topics'. These were:

- meetings every 6 weeks would be too onerous
- a standard template, with a summary for each appendix, would be helpful
- holding meetings at other venues was not seen as an issue

The Board discussed the current meetings timetable. Mr Hadfield noted that CMAL had slightly reduced its number of meetings after review.

The Board asked Mr Dorchester to liaise with the Executive team and seek comment on the proposed meeting re-structure. Additionally, Mr Dorchester will consider two network locations that future Board meetings could be held at.

Action1: Mr Dorchester

Mr Drummond and Mrs Ainscough joined the meeting.

Mr Drummond introduced Mrs Ainscough and set out her responsibilities in the Bid team.

Mr Dorchester and Mr Hadfield left the meeting.

Mrs Ainscough outlined her expertise in her past career and indicated that the Bid team was progressing well.

5. BUSINESS DEVELOPMENT

5.1 CHFS bid update

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Dorchester returned to the meeting.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Dorchester left the meeting.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Tait left the meeting.

Mr McGibbon outlined the process for the CHFS1 competition.

Mr Stirling noted that the independent panel, which was to advise Transport Scotland on the bid, would also give feedback and assurance to communities.

Mr Drummond noted that it was very challenging to bid against three evolving ITTs.

Mrs Ainscough noted that a draft smart ticketing document that she had seen had referred throughout to 'stations'.

Mr Dorchester and Mr Hadfield returned to the meeting.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Hadfield left the meeting.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr Dorchester noted that it was important to understand the output from the Transport Scotland procurement team, when measured against messages from Scottish Government.

Page 3

Mrs Ainscough outlined the bid status and a number of key points.

Page 4

Mrs Ainscough noted that a robust process was in place for progressing the ITT and external reviewers will be used to assess it. Professional Writers are ready to assist with the bid.

Mr Dorchester noted that Board review dates need to be arranged.

Page 8

Mrs Ainscough noted that the service delivery segment of the bid team may need additional resource.

Mr Hadfield returned to the meeting.

Mrs Ainscough noted that Mr Hytch was a good addition to the bid team as he was 'well connected' in regard to smart ticketing and technology.

Mr Drummond presented the bid strategic framework. He noted that there were a limited number of potential smart ticketing partners.

The Board discussed the challenge of contract review after Contract Year 1 when assessing the effect of the new CHFS2 Harbour Operating Service Agreement.

Mrs Ainscough noted that the change management team would be in place for the first few months of CHFS2 and, thereafter, new systems would be controlled by permanent staff. She also highlighted a number of potential improvements which could benefit the communities served by routes.

Mr Drummond asked the Board to comment on p3 or p4 and on p6-12 for story boards.

Mr Drummond summarised the main points of the morning’s meeting, noting that the reaction from Transport Scotland, regarding the submission of options, all pointed to the bidder making a decision on whether to include them or not.

[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Mr McGibbon thanked Mrs Ainscough for her contribution.

7. ITEMS FOR NOTING/UPDATE

Mr McGibbon proposed that the documents should be taken as read and any comment raised later as necessary.

- 7.1 Group Safety Committee Meeting Minutes 3 June 2015
- 7.2 Group Audit & Risk Committee Meeting Minutes 10 June 2015
- 7.3 Group Risk Register
- 7.4 Appendices (CEO report supporting papers)
 - Risk, Operations, HR, Commercial, Technical

8. ANY OTHER BUSINESS

Cabinet visit to the Western Isles

Mr Hadfield noted that the Cabinet was intending to visit the Western Isles and he indicated he would advise the dates and itinerary.

Next Audit & Risk Committee meeting

Ms Stark reminded the Board that the next Audit & Risk Meeting was to follow after the Corporate Review meeting.

Canna shop

Mr McGibbon noted that the shop on Canna had suffered from a burglary and a lot of stock had been stolen. CalMac had offered to replenish the stolen items.

9. NEXT MEETING

NB: re-arranged date and venue: 1.30 pm on Wednesday 30 September 2015 at Stornoway.

.....
Chairman

DAVID MACBRAYNE LTD
BOARD MEETING ACTION POINTS

Meeting	Action No.	Responsibility	Topic	Action
24/06/15	1	MD	<u>Meeting structure review</u>	To obtain input from the Executive team on the proposed altered meeting structure.