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DAVID MACBRAYNE LIMITED
MINUTES of the BOARD MEETING
held on Wednesday 14 March 2018 at 1.00 p.m.
in the Library, MacDonald Holyrood Hotel, Edinburgh

[FOISA Status – Exemptions under Section 30 (Prejudice to effective conduct of public affairs) Section 33 (Commercial interests) and Section 36 (Confidentiality)]

Present:

- D C McGibbon (DMcG) (Chairman)
- S M Browell (SMB)
- M Comerford (MC)
- R Drummond (RD)
- S Hagan (SH)
- J Stirling (JS)
- A Tait (AT)

In attendance:

- R Hadfield (RH) – Assessor, Transport Scotland
- J Beckett (JB) – Interim Finance Director
- S R Griffin (SRG) – Company Secretary
- B Fulton (BF) – Director of Community & Stakeholder Engagement (part)
- A Campbell (AC) – Community Board Chairman (part)

Apologies:

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
<p>S M Browell reported that as part of the 50th anniversary of the Hull Triple Trawler tragedy three things were apparent: 1) that legislative improvements came from the work of female relatives of those killed (not health & safety experts); 2) that those who worked in the industry were fearful of raising concerns and; 3) that despite the improvements in health & safety legislation accidents still happen.</p> <p>The Board discussed the strategy meeting held in Glasgow on 28 February during the recent period of snowy weather and whether it should have been cancelled. They noted that there was a Working Alone Policy but not a Policy covering tracking employees whereabouts when they travel.</p>	
	Action: This item was to be added to the April Safety Committee Agenda. SRG
1.2 APOLOGIES FOR ABSENCE	
<p>There were no apologies for absence.</p>	
1.3 DECLARATIONS OF INTEREST	
<p>Agenda item: 6.2 M Comerford advised that he had a relative who was a Director of Foundation Scotland.</p>	

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1.4 MINUTES FROM BOARD MEETING OF 14 FEBRUARY 2018

The Minutes of the Board meeting held on 14 February 2018 were **APPROVED** and the Chairman was **AUTHORISED** to sign the minutes.

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

R Drummond reported that B Fulton, B Viridi and S Bland had interviewed the Port Director candidate and recommended him for the role. R Drummond and S Judah would be meeting with the candidate the following week.

It was noted that there was no update on the ALARP matters discussed at the Safety Committee although there had been an external visit to Bull Hole and the report would be available in due course. The next Safety Committee meeting would be at the end of April.

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

1.5 ACTION LOG

The action log was discussed as follows:-

54.17 Network Visits – R Drummond confirmed that he would provide Non-Executive Directors (NEDs) with questions, issues or areas (e.g. values, sickness absence and safety) to discuss out on the network. He advised that A McCrae was working on sourcing the dates when Executive staff were out on network visits to send them to the Board.

RD/NEDs

72.17 Additional Papers - Departmental Reports – It was felt that the Table of Fleet Reliability should be presented either in 'cost' or 'hours lost' order and it should also show the impact of contract penalties. The Board asked that this information be provided within the main Board papers.

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

JB

77.17 Royal National Mod - Board noted the importance of CalMac's sponsorship to the Mod and discussed future intentions. M Dorchester would ask B Fulton and D Cannon to prepare proposals on sponsorship strategy including Mod sponsorship.

The Board noted that proposals in respect of the Royal National Mod were on the Agenda but that a sponsorship strategy was still awaited. R Drummond reported that there would be two sponsorship strategies: 1) Marketing/Commercial sponsorship strategy aimed at driving revenue and 2) Stakeholder sponsorship strategy coming from B Fulton's area.

RD (KMcG)
RD (BF)

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16.18 Isle of Arran – this vessel had suffered a pitch control issue (the failed part had been replaced a year ago, then again 3 months ago and was failing once again) which placed limitations on the operating window and ports that were suitable.

R Drummond reported that he had emailed the Board to confirm that the failure would manifest itself as 'full ahead' and that mitigations had been in place as advised. The Isle of Arran was now in dock and due back in service in early April. Following discussions the supplier was meeting all of the costs of fixing the fault (including docking costs) but would not be covering any consequential costs e.g. performance penalties.

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17.18 **Business Development** – this item had been added as a standing agenda item. It was agreed that K McGregor would be asked to provide an update paper and be available to attend to present if required.

All other actions were for future meetings, complete or would be covered under Agenda items.

SRG (KMcG)

2. **CHAIRMAN'S REMARKS**

2.1 **MEETING WITH MINISTER**

Action: S M Browell would produce a note from the meeting with the Minister for Transport held earlier in the day and R Hadfield agreed to share his notes with her.

SMB/RH

2.2 **STRATEGY DAY**

D McGibbon reported that the strategy day in February had gone well and been useful and a session to discuss the Corporate Plan had been arranged for 29 March.

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

2.4 **RECRUITMENT OF NEW CEO**

D McGibbon reported that the non-executive directors had agreed the process to be undertaken and S M Browell, S Hagan and C Roberts, HR Director, would review the agency tenders.

3. **BOARD COMMITTEES & SUBSIDIARIES**

3.1 **AUDIT & RISK COMMITTEE – 19 FEBRUARY 2018**

The Board noted the draft Audit & Risk Committee minutes and A Tait reported that the Committee had reviewed the Terms of Reference in detail and agreed that training should be undertaken. The Committee had received a GDPR presentation which had reported that work was well advanced on this project and that, anecdotally, CalMac was ahead of its peer group in its preparation for compliance with the GDPR.

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

D McGibbon reported that he had held his annual meeting with the External Auditors and there were no matters to bring to the Board's attention.

3.2 **SAFETY COMMITTEE – 1 FEBRUARY 2018**

The Board noted the draft Safety Committee minutes.

The Board noted that they had received the Annual Safety Report & Annual Environmental Report which had been recommended for Board approval by the Safety Committee. The Board **APPROVED** these reports for submission to Transport Scotland.

3.3 **REMUNERATION COMMITTEE**

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S Hagan reported that the Committee had reviewed the Gender Pay Gap report, noting the challenges within this industry, and approved contractor requisitions. The governance process around contractor requisitions had improved and was highlighting pressure areas within the business e.g. IT. An Interim Service Delivery Director had been approved and this item would be discussed further at the Remuneration Committee meeting being held immediately after the Board.

Action: The Remuneration Committee minutes to be circulated by email to the Board.

SRG

4. **GROUP REPORTS**

4.1 **GROUP CEO UPDATE**

The Board noted the report from R Drummond and he reported as follows:-

4.1.1 **Key Issues Last Month**

- **Corporate Plan** – the Board session had been arranged for 29 March with the Plan pack to be circulated in advance. In the meantime, management challenge sessions were in progress and once the Corporate Plan had been approved by the Board in April it would be communicated to the business. Profit of £4m was forecast – an improving position – and risks and opportunities and underlying assumptions as part of the planning process would be outlined to the Board. The main focus was on 2018-19 although 2019-20 was also covered.

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- **Brodick** – the terminal was due to open the following Tuesday having received the PAS certification and CMAL dealing with snagging items. CalMac were awaiting Transport Scotland instruction to use the new terminal and need a CV to cover the revised staffing levels (per the CHFS2 Contract which states that the operator should be no better nor worse off). The CV process whereby changes requested by Transport Scotland should result in production of a CV by them was explained to R Hadfield.

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- **Vessels & Asset Management** – the Board noted the issues with a number of vessels including the Isle of Arran, Clansman and Loch Alainn which were all in dock while the Hebrides was due in dock in April and the Loch Striven was operating single-ended.

4.1.2 **Key Achievements Last Month**

- **Group Profit** – **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD on revenue of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with full year profit forecast improved to **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** – dependent on Contract Variations being approved. Cash was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** at the low point of the cycle with **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** due to Transport Scotland.
- **Troon Berthing Trials** – successful trials had been held, with proper berthing trials being done when boats were coming out of dry dock in order to document this across the network. The Arran Ferry Committee had been kept informed and feedback had been received.
- **IVR Platform** – this had been successfully implemented in the contact centre.
- **IT Director** – permanent IT Director had been recruited – and due to start late March.

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- **Retail Pricing Policy** – a new pricing policy increasing prices by 3-9% had been approved and would add circa **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** to revenue.
- **Modern Apprenticeship Guide** – R Drummond handed out brochures to the Board and it was noted that these were available in ports.
- **Clerical Leave** - the Remuneration Committee had approved an increase in leave to clerical grade staff to bring them into line with the rest of the business.
- **Arran Route – World Host Status** – customer service certification had been received.
- **Senior Managers** – revised Terms of Reference had been agreed for the Senior Managers meeting to give them greater responsibility and decision-making powers and strengthen the communications between the Executive Team and Senior Managers Team. R Drummond confirmed that the Senior Masters had a forum which met every six months and included discussion of their management role.
Action: R Drummond would circulate the minutes of the last MASAG Group to the Board.

4.1.3 Key Issues Next Month

- **Corporate Plan** – this had been discussed earlier in the meeting.
- **Contract Variations** – this had been discussed earlier in the meeting.
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]
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- **Perth Harbour Operations** – a bid for this small contract for circa : **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** had been submitted.
- **Ferry Shipping Summit** – R Drummond and K McGregor would attend this conference in Amsterdam in late March, with R Drummond presenting.

R Drummond advised that he would like to meet the Board and individual Directors to discuss the future direction of the Managing Director role.

Action: R Drummond would arrange for a meeting to be set up, probably around the Corporate Plan session.

RD

4.2 GROUP FINANCE UPDATE

The Board noted the report from J Beckett covering the period to end January and she reported as follows:-

4.2.1 DML Group Financial Results – January 2018

4.2.1.1 Group Profit & Loss

J Beckett reported that the Plan comparators were out of date and the Plan had been re-based for known changes to the original assumptions with a table included to show these changes:-

- Net profit had moved from **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with key changes including:-
 - Performance penalties of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Pay award costs of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - ATOS court case costs of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

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- Operating profit **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to re-based Plan with a month loss of £200k due to the timing of CMAL berthing dues.
- Summary Operating Profit Variance to Plan was noted and included:
 - Vessel Operations: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**YTD
 - Farebox: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**YTD although it was in line with Plan for January & February
 - Total Operating Profit: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**YTD

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

4.2.1.2 2017/18 Group Financial Year Forecast

Group Profit forecast was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to re-based plan profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. The Board discussed the significant risk to revenue recognition of the unapproved CVs and the fact that these needed to be finalised asap in order to finalise the Year End Accounts.

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

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4.2.1.3 Group Balance Sheet

- Group net asset position was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Cash position of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** cash due to Transport Scotland.

4.2.2 **CHFS2 Contract Year 2 Performance**

4.2.2.1 Summary Contract Year 2 Financial Performance

Operator Return was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with monthly operator return at **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** (annual operator return **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**) with adverse variances from:-

- Vessel Maintenance
- Vessel Overhauls
- Farebox
- Crew costs – including absence costs (absence rate being 6% versus Plan rate of 4.5%)

Training costs were being reviewed with a review of mandatory training requirements, CalMac recommended training and discretionary training as well as looking into a new training approval process which would ensure consistency across the business.

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

4.2.2.3 Performance Penalties Deductions

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This was noted.

Action: J Beckett reported that she would expand this data to include YTD.

JB

There had been a performance penalty regime presentation to senior managers recently.

Action: J Beckett to arrange for the performance penalty regime presentation for the April Board.

**JB /
SRG(Agenda)**

4.2.3 **Gourock-Dunoon Summary Contract Year 7 (Extension Year 1) Financial Performance**

- Operator Return before fuel was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

J Beckett reported that the Contract Extension Year 2 financial plan was at the final draft stage.

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

At this point B Fulton and A Campbell joined the meeting.

5. **DISCUSSION/DECISION TOPICS**

5.1 **COMMUNITY BOARD**

A Campbell, the Community Board Chairman, reported that two Community Board meetings had been held and the Board was embedding its purpose (which was at a strategic level e.g. above the operational level of Ferry User Groups etc.) and had drafted its main areas of work. A map of the areas covered with Community Board members' contact details had been produced and was now posted on vessels and in ports. There were a couple of geographical areas which were not directly represented (Bute and Uist) although Community Board members did not solely represent the areas in which they lived. Co-opting further members would be discussed at the next Community Board meeting and it was felt important that new members go through a similar interview process to the one current members had. The minutes of the Community Board meetings were publicly available via the Community Board webpage on the CalMac website.

Each Community Board member reported to the Community Board on activity within their communities and liaison with local groups including community councils. Common themes emerging included:

- economic activity / jobs
- communication (a wide topic with a presentation to the next Community Board on communication to communities on exceptions reporting)
- local produce onto vessels
- using vessels to promote destinations
- local-based training e.g. at UHI campuses
- Wi-Fi availability/functionality
- freight including availability for freight at busy times & costs for freight e.g. housing materials
- unmet demand

A Campbell reported that he had recently met with the Minister for Transport and it had been agreed that they would meet on a six-monthly basis. As agreed previously he would also attend the DML Board twice a year to report on the work of the Community Board with an annual report produced. He felt that not only should the Community Board

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report to the DML Board but that it was important that there was feedback in turn to the Community Board from the DML Board as well as messages from the DML Board to the Community Board for members to take back to the communities.

He reported that the Community Board members had been very active and had the potential to add a great deal and that it was important that their achievements would be visible and recognised.

It was noted that keeping key workers and young people in island communities were important issues and that offering travel discounts on CalMac ferries via the Young Scot card was a recurring request.

S Hagan commented that a great deal had been achieved in a short time but that consideration should be given to areas or topics which could provide immediate return, including evidence of lobbying benefit for items where there were no short-term solutions. A Campbell suggested that potential areas for immediate return were: 1) Wi-Fi and 2) Year of Young People benefits e.g. Young Scot card travel discounts for travel to sport or education. B Fulton advised that he had scheduled a meeting with Transport Scotland to discuss Young Scot discounts. R Drummond reported that CalMac could attend the Community Board to update them on progress on various issues e.g. Wi-Fi, freight and training.

A Campbell asked that Community Board members be added to the loop for communications regarding breakdowns or transport issues so that they were kept up-to-date with information.

The Board asked A Campbell to consider if there was any assistance or expertise that the Community Board needed from CalMac and he suggested that Community Board members with a particular interest could visit CalMac and be briefed on this area including ongoing issues and it was agreed that this could be done.

The Board noted that the initial tenure of the Community Board members was 18 months and that in due course a process for refreshing the Board would need to be put in place.

At this point A Campbell left the meeting.

6. **STRATEGIC ITEMS**

6.1 **ROYAL NATIONAL MOD**

The Board noted the paper from B Fulton and agreed that it would be discussed as part of a wider CSR Sponsorship Strategy paper.

6.2 **CSR ACTIVITIES UPDATE**

Conflicts: M Comerford advised that he had a relative who was a Director of Foundation Scotland.

The Board noted the paper from B Fulton and he reported that the one of the proposed activities was a Community Fund, a CHFS2 bid commitment, **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**. In addition more robust criteria for decisions had been developed and it was proposed

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that the grants would be administered by Foundation Scotland who could not only provide administrative expertise but also reporting and transparency. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

The Board **APPROVED, IN PRINCIPLE**, the Community Fund proposal.

In addition to the Community Fund two further proposals, 1) Place-Based Economic Enabler programme and 2) Supplier Development Academy had been put on hold – although if parts of the Place-Based Economic Enabler could be provided on a no-cost basis then they would go ahead.

B Fulton confirmed that there was a great deal of staff involvement in CSR activities across CalMac and this would be reported in the forthcoming CSR newsletter as well as the newsletter that is produced for MSPs.

Action: B Fulton agreed to circulate the forthcoming MSP and CSR newsletters to the Board.

RD (BF)

6.3 **YEAR OF YOUNG PEOPLE 2018 – UPDATE**

The Board noted that report from B Fulton and he reported that both the DML Board members and Community Board members had provided input. The report outlined the current and agreed initiatives as well as potential future initiatives including the Young Scot travel discounts discussed earlier in the meeting and seeking youth opinions direct.

B Fulton reported that a communications plan had been drawn up, including using social media and that an overall update would be provided at the end of the project.

Action: B Fulton agreed to review which of the Community Board ideas would be progressed and feed back to the Community Board for their achievements reporting.

RD (BF)

7. **BOARD COMMITTEES & SUBSIDIARIES (CONT'D)**

7.1 **SOLENT GATEWAY LIMITED (JV) – UPDATE**

The Board noted the report from B Fulton. It was suggested that the narrative report was good, however the SGL Five Year Forecast table needed greater clarity in terms of the figures.

Action: B Fulton agreed to review the table and circulate a revised version to the Board.

RD (BF)

J Stirling queried how the SGL Board managed the governance process for approvals e.g. ensuring that matters reserved for shareholder approval were correctly identified. S R Griffin advised that a SGL Board Matters Reserved would be produced as part of ongoing governance improvements and this would contain the list of matters reserved to the shareholder from the Joint Venture Agreement.

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

At this point B Fulton left the meeting.

8. **STRATEGIC ITEMS (CONT'D)**

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9. **DISCUSSION/DECISION TOPICS**

9.1 **POLICY REVIEW UPDATE**

The Board noted this update report from L D Wolff on the policy review process. R Drummond reported that the major work done to date was to move Policies to the new standard template with no material changes to policies. The Board **APPROVED** the Disciplinary Policy & Procedure, Employee Support and Attendance Policy & Procedure and Grievance Policy & Procedure.

10. **ADDITIONAL PAPERS - FOR NOTING**

10.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

R Drummond confirmed that there were plans for expansion of the Gourock office space as well as reducing the amount of space required for document storage by issuing current document retention guidance to managers.

The Board discussed the dry-docking schedule vs. timetable cycle and noted that a new approach was needed. In addition to the increasing use of in-water surveys, it was suggested that continuous machinery surveys (e.g. on a 5 year cycle) could be employed with overnight review of vessels in berth, using dry-dock for the bottom of the boat and propellers only.

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

11. **ANY OTHER BUSINESS**

11.1 **FRAMEWORK AGREEMENT**

A Tait confirmed that the Framework Agreement was an Agenda item for the April Audit & Risk Committee meeting.

Action: R Hadfield agreed to send the updated draft version to A Tait and S R Griffin.

RH

11.2 **SCOTTISH CANALS BUSINESS REGENERATION AND BUSINESS DEVELOPMENT PRESENTATION**

S Hagan reported that he had attended a Scottish Canals Business Regeneration presentation on utilising marine estate which he felt would be of interest to the DML Board and Executives.

Action: S Hagan, D McGibbon, R Drummond and K McGregor would consider whether Scottish Canals should be invited to present to the DML Directors and Executive.

**SH/DMcG/
RD/KMcG**

12. **DATE OF NEXT MEETING**

Wednesday 11 April 2018 at 9.00 a.m.

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Signed:
D C McGibbon
Chairman

Date: