

DAVID MACBRAYNE LIMITED

MINUTES of a BOARD MEETING

held at the Ferry Terminal, Gourock, PA19 1QP on Wednesday 20 April 2016 at 10.45 am

[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 (DM) (Chairman)
M Dorchester (MD)
R Drummond (RD)
S Hagan (SH)
J Stirling (JS) (Chair)
A Tait (AT)

In attendance: R Hadfield (RH) (Scottish Government, Assessor)
P Osman (PO) (Interim Company Secretary)
C Patterson (CP) (Board Administrator)

Item Action

1. **Preliminaries**

1.1 **Safety moment**

The Board watched a safety video, which MD confirmed was now being used in the business to give training to crews on the 'human element' and how this might influence the way in which accidents can occur. The story in the video was very pertinent to a recent accident within CalMac on the Clansman.

1.2 **Apologies**

None.

1.3 **Declarations of interest**

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

2 **Minutes from 10.2.16**

2.1 **Minutes**

These were approved subject to the following amendments:-

Item 2, 1.4 – 'Scottish Ministers' – RH explained that this term was normally used to describe the collective ownership by the elected representatives of the Scottish Government of a public body and so was the most accurate expression to use in such a context.

Item 4, 2.2 – Project Valiant – MD reported that there had recently been an improved response from BT on the connectivity problems that had been experienced previously.

2.2 **Action Points from 10.2.16**

CP confirmed that these had all now been completed.

AT enquired as to how successful had been the "CalMac Promise" promotion. MD replied that an excellent response had been received – the Eejits campaign had been recognised in the national press and had enjoyed more than 20,000 hits on YouTube.

3 **Chairman's Remarks**

3.1 **CHFS2 bid**

DM commented that this was the first DML Board meeting since the submission of the CHFS2 bid and he wanted the Board to acknowledge the tremendous amount of work that so many of the staff at CalMac, including MD and RD, had put into this project. He asked RD to pass the Board's considerable thanks to the bid team for all they had contributed to this task.

RD

3.2 **Pensions**

DM had received a letter recently from the Chair of the Pension Fund Trustees. TS had indicated that it was very unlikely that the Scottish Government would be able to progress discussions or decisions on this issue until after the Scottish Parliament elections on 5.5.16.

3.3 **Shippax Conference**

DM reported that he, MD, Drew Collier and David Cannon had just attended this useful conference at which MD had presented a paper on the provision of lifeline services and the problems faced by smaller ferry operators. It became apparent that CalMac was now recognised by the industry as a significant player in the market.

4. **Group Reports**

4.1 **Group CEO Update**

MD referred to his paper dated 11.4.16 and added the following comments:-

4.1.1 *Marchwood*

The 'take over' date was now likely to be postponed to 1.6.16 due to further delays in obtaining the necessary licences due, in part at least, to the difficulty in arranging meetings with the H & S Executive.

MD would arrange for the Marchwood team to give a presentation to the Board on the financing and future plans of this JV. It was proving to be a most interesting experience learning how best to deal with the MoD and GBA.

MD

4.1.2

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

4.1.3 *Safety Day*

MD had asked the Executive Team to organise such a day to help embed a safety culture throughout the Group. JS noted that Louis de Wolff was now much more comfortable with his role of managing the safety embedding process, rather than that of directly overseeing safety implementation, especially at ports and on vessels, as in the past.

4.1.4 *Weather*

MD noted that CalMac had suffered badly over the recent winter from very bad weather, but this had also been the experience of many other ferry operators at Shippax.

4.1.5 *Timetables*

MD stated that it would not be possible for the 2016-17 winter timetable to be signed off by the Transport Minister until the end of 'purdah' - election day on 5.5.16.

SH remarked that the Board regularly discussed 'timetables' and wondered if this would continue into the future. MD replied that there had been substantial changes to this timetable, many of which had to be approved by the Minister adding complexity and delay to the process. He believed that this would become easier, however, under CHFS2.

4.1.6 *Services generally*

A higher level of passengers was being carried in recent months, save for one service where an error had occurred with integrating tide timetables with ferry departure times.

4.1.7

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

4.1.8 *Wemyss Bay*

MD wanted to record just how much improvement had been achieved by the CalMac team in managing the upgrading programme at this port which was completed on time at the end of March and in time for Easter. He had personally thanked all those staff members who had been involved.

4.1.9 *Alternative vessels*

JS requested clarification about the reference to the deployment of 'other vessels' in MD's report. MD commented that management must consider all relevant factors and implications of vessel design and deployment on all future orders. This had not necessarily been carried out with the fullest degree of rigour for which he might have wished in the case of the Sleat.

4.1.10 *Asset management*

MD reported that the Technical team had recently carried out useful work on the possible future renewal of existing vessels and, when appropriate, any such recommendations would require Board consideration.

4.1.11 *Catriona*

The latest delivery forecast for this ship was now the end of summer.

4.1.12

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

4.2 **Group Finance Director's Report**

RD referred to his Report dated 20.4.16 showing the Group's results for the 11 months to 29.2.16 including a 45% improvement to Plan of operating results **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**. This had been positively impacted by substantial fuel and training savings, amongst other cost reductions. The waterfall chart on page 2 of RD's Report showed these items in greater detail.

The balance sheet highlighted a strong cash **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** for the Group. As to CFL, due to clarifications received during the bid process, additional working capital would no longer be required in the short term since TS had agreed that supplier implementation costs on Project Valiant would be funded by the CHFS1 contract.

After 5 months of the CHFS Year 9 contract, Operator Return after Clawback **[FOISA Status - Exemption under Section 33 (Commercial Interests and**

the Economy]]].

AFL was trading slightly ahead of Plan, but would not be profitable if it was to be run as a stand-alone business since CFL currently contributed management and support services to it.

RD commented that support and management costs for the Group as a whole were trending down and this would put the Group into a good position leading into CHFS2.

5 **Future Focus Discussion**

5.1 **Governance and future Board structures**

MD referred to his paper dated 10.4.16 and introduced this subject by emphasising that there was already a considerable amount of 'governance' within the DML Group, the senior forums for which were listed in the paper and to which daily reports were fed by staff and line managers throughout the business. This should give comfort to the Board and to TS that the Group's activities were closely monitored and managed on a very regular basis.

As to the future governance proposals in the paper, these were aimed at facilitating the DML Board to use its expertise in considering and making more strategic decisions than in the past based on relevant and better focussed data.

AT welcomed plans to streamline existing governance processes, to reduce the volume of information that was circulated and to formalise SGL reporting to the DML Board. He was unclear how a more structured Executive Committee might work and how this could be combined with quarterly CFL Board meetings and why it was felt that a more clearly defined decision-making format was required at this level of management. He asked for RD's views on how the proposed governance structure would work post-bid.

JS enquired whether there should be more formality and recording given to the review of AFL business and SH asked that a separate discussion should take place about the role of Non-Executive and Executive Directors. He agreed that data volumes should be reduced and accepted that there should be a move towards electronic distribution of Board papers, but was also uncertain as to the combination of Executive Committee and CFL Board meetings. He welcomed the new style of minutes and an action log that had been trialled at the last Safety Committee meeting.

In response to AT's question, RD commented that he believed there would still be too many 'governance' meetings and that a simpler structure, which he had operated elsewhere, would be an operations board (the proposed Executive Committee) reporting directly to the holding Company Board, even if this Board then had more regular meetings than at present. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

MD proposed that this issue might best be raised with DML's sponsor and asked RH how this might be achieved. RH replied that this was not the time, before the election and before the bid announcement, for this matter to be taken forward with the SG. Doing so should await the bid award and thereafter, if appropriate, until the new contract had 'bedded down' for several months.

As to the governance paper itself, RH confirmed that there was nothing in it that would cause problems for the SG. Reading it, though, had set him thinking about whether a process might be established to enable more regular communication between DML and TS to make sure that matters which were not directly concerned with day-to-day ferry operations were fully considered, for example union issues, pensions, ferry purchases, business development. This should improve the understanding between DML and Ministers, **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

DM asked how this issue should be moved forward and MD undertook to prepare a summary of the Board discussion which would propose an action list reflecting the above points. He was keen that the future structure would enable Executive Directors within the Group to put papers to the NEDs which would then be challenged, to which all agreed. MD

5.2 **Business development update**

MD asked that the Board should consider business development possibilities after bid award, since the Group would be well positioned and had available much suitable expertise to enable it to seek other projects. He would organise a strategy away day for the Board (probably on 23.6.16, this being immediately after the next DML Board meeting on 22.6.16) and RH agreed to address the issue of improved communications with TS/SG on that occasion. MD
RH

6. **Items for noting**

Minutes of the last Audit & Risk and Safety Committee meetings were noted, together with management reports from Risk, Operations, HR, Commercial, Finance, IS and PMO and Marchwood.

SH queried whether sufficient attention was being given to gender equality issues since only 3% of ratings intake over the last two years was female. MD explained that recruitment was always based on capability and aptitude and that, in any event, ferry services were not seen to be an attractive career for young women. However, CalMac was well aware of its diversity obligations and was continuing to work to ensure that these were implemented.

7. **Any other business**

7.1 **New procurement regulations**

RH reminded the meeting that new procurement regulations had recently been introduced which required the use of a new system for major suppliers. MD confirmed that CalMac was aware of these and had adjusted its processes accordingly.

7.2 **NorthLink**

RH reported that the legal challenge to the NorthLink contract that had been brought by an unsuccessful bidder had now been concluded in favour of the SG.

7.3 **Bid announcement**

SH asked for confirmation that the DML Board would be fully prepared for comments that it might be asked to make following the bid award. MD replied that plans for this were in hand, including the provision of media training, and would be shared with Directors. MD

In contrast, a paper was in preparation outlining the consequences of an unsuccessful outcome for CalMac and this, too, would be circulated to the Board. RD emphasised that those present should not underestimate the impact that such a result would have on the business and its staff. MD

7.4 **Board committee meetings**

MD reported that feedback from the recent Audit & Risk and Safety Committee meetings, both from their members and from those attending, was that they had been much more productive and positive than those in the recent past. The sense was that safety was becoming more fully embedded within the Group, though all accepted that more work on this was required.

These committees acknowledged that they should be seen to increase their review of risk-based issues.

At its last meeting the Safety Committee had considered the inconsistent results of an independent safety culture assessment that had been carried out recently across the Group. Its conclusions were unexceptional, though there was some doubt as to the methodology that had been used in reaching them. A management response to the report was being prepared.

7.5 **Environment report**

MD stated that DML had commissioned a report on this subject from an external expert and it contained interesting ideas as to how environmental issues could be developed on the West Coast. He would circulate a copy to the Board.

MD

9. **Close**

There being no further business, the meeting was declared closed at 1.20 pm.

Signed:

Date:

2016

D C McGibbon
Chairman