

DAVID MACBRAYNE LIMITED

MINUTES of a BOARD MEETING

held at the Ferry Terminal, Gourock, PA19 1QP on Wednesday 14 December 2016 at 11.30 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)
- S M Browell (SB)
- M Comerford (MC)
- M Dorchester (MD)
- R Drummond (RD)
- S Hagan (SH)
- J Stirling (JS)
- A Tait (AT)

In attendance:

- R Hadfield (Transport Scotland Assessor)
- J Nicholls (Transport Scotland)
- P Osman (PO) (Interim Company Secretary)

Item	Action
1. <u>Preliminaries</u>	
1.1 Welcome	
<p>DM welcomed Richard Hadfield, John Nicholls, Sue Browell and Mike Comerford and all others present to the meeting.</p>	
1.2 Declarations of interest	
<p>There were no further declarations of interest on the part of directors, other than those previously made and known to all directors (save for SB and MC).</p> <p>It was accepted that there could be issues discussed by the Board from time to time which might give rise to a conflict of interest for TS (and its representatives) as the single shareholder of DML and/or as one of the parties to the Public Service Contract. It was agreed by all present that those from TS then present would withdraw from the meeting while such matters were considered.</p>	

2. **Appointment of directors**

DM confirmed that SB and MC had completed the recruitment process for the two new NEDs that the Board had been seeking and that the Minister had approved their appointment as directors of the Company with effect on 1 December 2016.

Accordingly, PO undertook to arrange for their details to be registered at Companies House.

PO

3. **Safety moment**

JS introduced a short safety video to the meeting by explaining that, contrary to the usual approach to safety matters, a US academic, Professor Sidney Dekker, had spent many years studying safety and was now recommending that the maintenance of safety standards should be viewed from the angle of what is correct performance, rather than analysing mistakes. The video was watched with interest and JS had more details of its source if these were required.

There was a mention of the recently released film, 'Sully', and the safety implications of its story. MD explained that, over the last few years, CFL had been actively engaging with crew and harbour staff to renew their safety skills and seek their suggestions on safety improvement. This had resulted in greater participation across the fleet with initiatives being proposed and taken, the latest example of which was the proposal to introduce a simulator for Masters and bridge crew.

MC contrasted the loss of life on the Titanic in 1912 with that (of similar proportions) on the Estonia, almost a century later. The Estonia had sailed in rough conditions contrary to the best judgment of its Master to meet management's requirements. He hoped that a policy of full support for the decisions of Masters was embedded in CalMac and fully understood by TS. He was assured on both counts that it was.

4. **Minutes and matters arising**

4.1 **Minutes from 5.10.16**

Subject to one amendment, these were approved.

4.2 **Matters arising**

Item 4.1.7 – CV Forums – SH reported that he, AT and Brian Fulton, had attended a community meeting with the Western Isles Council, which had been helpful. BBC Alba had interviewed Brian Fulton after the meeting which indicated the need for a Gaelic speaker to be present when any further such interviews with CalMac representatives were expected.

Item 4.1.9 – RET – AT reported that this issue had been raised at a recent community meeting he had attended. He said that he had not heard of any criticism of RET, though MD commented that some communities had complained that RET had reduced capacity

for islanders due to the number of tourists who had taken advantage of RET.

Item 4.2.3 – 2017-18 budget – AT asked that this be circulated to the Board and Audit and Risk Committee as soon as possible and, if achievable, before the April timescale indicated at the previous Board meeting.

RD

4.3 **Action log**

Please see attached latest version.

5. **Chairman's remarks**

DM pointed out that this was the first DML Board meeting since the Company had assumed responsibility for Marchwood, a major achievement bearing in mind the challenges that had arisen on the way to the Effective Date.

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

MD asked TS to note the impact of SGL on the future planning of the relationship between DML and the Scottish Government and JN confirmed that this would certainly be an integral part of it.

6. **Group CEO update**

MD referred to his paper dated 6.12.16 and outlined its contents. In addition, the following points were made:-

CHFS2 – workshops had been held between CFL and TS, but there remained much further understanding to be reached by both parties on the practical implications of the provisions of the new contract terms.

Valiant – this had been a long-running and very challenging project, but had now resulted in IT connectivity being made available to remote communities **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

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Events – CalMac had recently attended the MOD, the Rural Parliament and a tourist conference and MD emphasised the importance of the business being well represented at such events. A policy on this issue would be prepared for consideration by the Board at a later date.

Living Wage Champions for Scotland – MD noted this recent award to CalMac, a significant achievement. RD clarified this by saying that the award recognised the background research, policy making and training that had been required before the award

could be made.

SMART – slippage had occurred in its implementation due to delay in TS approval. As it was not possible to introduce SMART in the middle of a timetable, any such delay meant that it would not be possible to re-configure the software for another 6 months – until the start of the following timetable. This, RD reported, had already effected CHFS2 timings.

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Audit Scotland – RH reported that Audit Scotland was carrying out a review of TS's stewardship of ferry services in Scotland, likely to run on till the autumn. It had issued a flyer on the project, a copy of which he would forward to the Board. It was possible that CalMac would be asked for input to this review.

JN stated that, as had been past practice, it was likely that the audit report would be shared with those named in it before publication and, if appropriate, this would include the DML Group.

MCA – MC agreed to take a look at the Group's relationship with the MCA, which MD felt could be nurtured for the benefit of both parties.

[JN left the meeting at 12.55pm].

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

7. **Group Finance Director's Report**

RD's Report was tabled. He stated that Group profit for the year to date to 31.10.16 was **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

For 2016-17, farebox income was better than planned, though increased crew costs were being reviewed. Transition costs were less than plan since this had been delayed by proposed contract variations which amounted to approximately **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]** per year.

The Group balance sheet showed debtors of **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**, being mostly funds due from TS in respect of the CHFS1 contract closure and CHFS2 initial contract variations. Cash had reduced significantly since 1.10.16 (the start of CHFS2) while the variations were being considered, the shortfall being covered by a revolving bank facility with RBS for **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**. The contract provided that any contract variations should be approved within 28 days of submission, a period long since exceeded.

RH explained that, as the variations were so substantial they had to be fully reviewed by TS which was, however, aware of the effect the delay in approval was having on CalMac's

financial position. A meeting on the issue with TS's contract managers was due to be held in the afternoon.

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

CHFS1 year 9 outcome showed clawback of **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]** assuming acceptance of contract variations, though these had yet to be approved by TS.

Gourock – Dunoon – Year 5 had returned to profit compared with previous losses. In Year 6 unplanned maintenance costs had depressed results, but these were being reviewed.

[JN returned to the meeting at 1.30 pm].

8. **Additional papers**

8.1 **Meeting proposals**

The meeting noted RD's paper dated 30.11.16, the contents of which he outlined.

DM reminded the Board that similar proposals had been considered about two years ago, but were now more appropriate because of the advent of the CHFS2 contract, the Group's expanded activities such as Marchwood **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**. The paper was discussed and its contents broadly agreed, so that PO was asked to prepare a schedule of dates for 2017. In addition, he suggested he prepared pro forma agendas for the new meeting regime which, SB requested, should include an annual programme of discussion topics for the DML Board. MC commented that it was most important that the Project Management Board, which had now assumed responsibility for overseeing Transition projects, should report fully to the Executive Committee and to the DML Board.

PO

RH cautioned that the extra meetings proposed did not become too burdensome and that discipline was required to avoid duplication.

8.2 **HMRC update**

Tonnage Tax - RD referred to his paper dated 6.12.16 **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

MC offered to connect RD with the MCA department which specialised in advising shipowners how to benefit from Tonnage Tax.

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

MC
RD

9. **CHFS2 Transition update**

RD talked through a slide presentation which had been circulated. The Project

Management Board (PMB) was now smaller than before and decision-making authority had been delegated to individual project boards. He summarised the tasks for each programme board and explained the purpose of the benefits schedule. He described how the current project on rostering was progressing through the Project Management Office's (PMO) governance structure.

- RD agreed to send MC a list of PMB meeting dates and of the PMO's organisation chart. RD
10. **Marchwood update**

This report, circulated previously, was noted. RD explained how the operation was funded and that this would be heavily dependent on actual commercial opportunities developed in the future.

[SH left the meeting at 2.45 pm and JN left at 2.47pm].

11. **Operational Reports**

The Board noted the reports from HSQE, Operations, HR, Commercial, Technical and Community and Stakeholder Engagement. Their contents were welcomed and RH commented that some of the ideas they contained, especially in the Commercial Report, could be used by the Scottish Government and by Ministers.

12. **Gourock – Dunoon bid**

RD referred to his paper on this subject in the Board pack. No ITT had yet been received from TS, so the purpose of the paper was to inform the Board of the position so far reached. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**. The bid process was delayed and the Board agreed that, when it was revived, the bid proposal (and that of providing a car ferry) should be revisited. RH pointed out that consideration should then be given as to how DML could fund the procurement of new vessels.

13. **Any Other Business**

- 13.1 **Sailors' Orphan Society of Scotland**

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MD

- 13.2 **Asset Director**

Two very suitable candidates had been identified and recommendations on them would be sent to Board members (including the Remco).

MD

- 13.3 **Rural Employer of the Year**

MD reported that DML had been shortlisted for this award, an achievement of which the Board should be proud.

13.4 Scottish Parliament Transport Committee

DML had been asked to present to this Committee in January, 2017. Preparatory work had yet to be started, but RD would keep the Board informed of progress and of the outcome of the hearing.

RD

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

RH

13.6 Vessel replacement and deployment plan

This should be available shortly and RH would send a copy of the latest version to MD.

RH

13.7 National Minimum Wage

RH noted that a solution to the issues raised by the RMT in respect of the Northern isles freight vessels should be achieved shortly.

14. Close

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

Signed:
D C McGibbon
Chairman

Date:

2016