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DAVID MACBRAYNE LIMITED

MINUTES of the BOARD MEETING

held on Wednesday 17 January 2018 at 10.45 a.m.

at the Ferry Terminal, Gourock, PA19 1QP

[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 (SB)
M Comerford (MC)
R L Drummond (RLD)
S Hagan (SH)
J Stirling (JS)
A Tait (AT)

In attendance:
R Hadfield (RH) – Assessor, Transport Scotland
M Dorchester (MD) – Chief Executive Officer
J Beckett (JB) – Interim Finance Director
S R Griffin (SRG) – Company Secretary
B Fulton (BF) – Director of Community & Stakeholder Engagement (part)

Apologies:

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
	D McGibbon reported that while at Clapham Junction he had noted that the passenger flow instructions (to keep left) were not aligned with the access to platforms which was on the right which caused disruption to passenger flows.
	M Dorchester reported that an accident in snowy conditions had occurred when a driver had applied the brakes to slow rather than using their gears despite a road sign advising them not to do so. He commented that there was a tendency was to tell people what not to do rather than what they should do.
1.2 APOLOGIES FOR ABSENCE	
	There were no apologies for absence.
1.3 DECLARATIONS OF INTEREST	
	There were no new declarations of interest on the part of Directors.

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1.4 **RESIGNATION OF DIRECTOR**

It was noted that M Dorchester had resigned as a Director with effect from 1 December 2017.

2. **MINUTES AND ACTION LOG**

2.1 **MINUTES FROM BOARD MEETINGS OF 31 OCTOBER AND 9 NOVEMBER 2017**

The Minutes of the Board meeting held on 31 October 2017 were **APPROVED**, subject to amendments to 5.1.3 to note that FMEL would also be involved in the meeting to discuss vessel delivery schedules and 6.3 to clarify the shareholder's expectations, and the Chairman was **AUTHORISED** to sign the minutes.

The Minutes of the Board meeting held on 9 November 2017 were **APPROVED** and the Chairman was **AUTHORISED** to sign them.

2.2 **ACTION LOG**

The action log was discussed as follows:-

- | | |
|---|----------------|
| 6.16 Business development – Arrange strategy awayday for Board (to include RH). When feedback on ferry review received, M Dorchester would revert to Board. C/fwd. | MD |
| 25.17 Meeting with Minister – 1. Prepare 5-10 year plans for Minister and 2. Consider agenda for such meeting. D McGibbon reported that he would be meeting with the Minister the following week. C/fwd. | DMcG |
| 54.17 Network Visits - NEDs to liaise with Andrina McCrae regarding network visits and M Dorchester to provide questions for them to ask crew and staff during network visits. C/fwd. | NEDs/MD |
| 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. C/fwd - this was ongoing as the data did not exist and would have to be created. | MD (JP) |
| 75.17 Corporate Social Responsibility (CSR) – Proposals for events were to come to the Board e.g. the future level of support for the Royal National Mod. C/fwd – this would be discussed in conjunction with the Corporate Plan at the March Board meeting. | MD (BF) |
| 77.17 Royal National Mod – The Board noted the important 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. C/fwd – this would be discussed in conjunction with the Corporate Plan at the March Board meeting. | MD (BF) |
| 86.17 Board: Meeting with Minister for Transport – R Hadfield suggested that the annual meeting between the Board and the Minister should be arranged in early 2018 – the last meeting having been in April 2017. R Hadfield would come back to the Board with dates. C/Fwd. | RH |
| [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)], | |
| All other actions were complete or would be covered under Agenda items. | |

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3. **CHAIRMAN'S REMARKS**

3.1 **AGENDA ITEMS**

Action: It was agreed that the GDPR presentation should go to the Audit & Risk Committee before the Board. **AT/SRG**

3.2 **ANNUAL REPORT & ACCOUNTS**

D McGibbon reported that these had now been presented to the Scottish Parliament.

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

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4. **BOARD COMMITTEES AND SUBSIDIARIES**

4.1 **AUDIT & RISK COMMITTEE (ARC) – MINUTES OF 25 OCTOBER 2017**

The draft minutes were noted.

A Tait reported that the ARC self-assessment was to be carried out and that ongoing Risk Strategy work was identifying risks after which a risk appetite strategy which covered the whole business would be produced. He also noted that the Framework Agreement review, which was in progress, was on the February ARC Agenda.

4.2 **SAFETY COMMITTEE – MINUTES OF 18 OCTOBER 2017**

J Stirling reported that there were two annual reports to be submitted to Transport Scotland: 1) the Safety Report, and 2) the Environmental Report. The Board confirmed that these reports should be approved for submission by the Safety Committee and would then come to the Board for noting.

4.3 **REMUNERATION COMMITTEE – MEETING OF 6 DECEMBER 2017**

S Hagan reported that the Remuneration Committee had reviewed nine contractor requisitions of which seven were for IT contractors (with additional IT contractor requisitions for review at the Remuneration Committee to be held later in the day). S Hagan noted that Management had provided assurance that these requisitions were an interim measure – covering resource for projects.

S Hagan reported that the Remuneration Committee had reviewed the proposed Executive bonuses, including the background information provided (and noting that bonuses were calculated individually), and had approved the Executive bonuses.

5. **GROUP REPORTS**

5.1 **GROUP CEO UPDATE**

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

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5.1.1 Key Issues Last Month

- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
- **Ardrossan** – Transport Scotland had sent a paper to the Minister recommending re-alignment of the Arran berth. This would make a significant difference to sailings in poor weather (via improved manoeuvrability). R Hadfield updated the Board on progress to date which included the costings for both the base and re-alignment proposals and an analysis of charges for port use versus investment in the facilities.
- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**,
- **Brodick PAS** – this was an Agenda item.
- **Union Activity** - there was some union activity both locally and nationally regarding matters such as the rail franchises, First Bus and Orkney ferry services, however there had been limited reaction to the Teckal Review. The union had also indicated concerns over the Argyll Ferries contract re-tendering and any potential impacts should CalMac's tender not be successful.

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

JB

5.1.2 Key Achievements Last Month

- **Service Delivery** – Near miss reporting had improved indicating a building of trust.
 - **ISO 9001 & 14001** – these accreditations had been achieved a year ahead of the statutory requirement.
 - **Disorderly Customers** – new training & guidance had been issued to staff which had attracted press interest (linked to coverage of the rail network) and it was noted that CalMac was leading on this matter. There had been no major incidents over the Festive Period.
- Action:** R L Drummond would circulate the training materials to the Board.
- **Shortlisted for Times Educational Supplement 'Apprenticeship Provider of the Year'** – this was a significant achievement and CalMac was the largest UK marine sector trainer. There was also a Graduate/Apprenticeship programme which included non-marine roles such as IT.
 - **Bluebird** – these ticketing machines had been successfully rolled out and the Storm system discontinued.
 - **Customer Service** – M Comerford commented that staff had done a good job over the Festive Period and J Stirling noted that he had taken part in a cruise around Arran recently and the CalMac staff had been fantastic.

RLD

5.1.3 Key Issues Next Month

- **Corporate Plan** – the first executive team planning session had taken place on 9 January with the next one scheduled for mid February and the Plan to be presented to the March Board. CY1 had over-delivered **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, however CY2 and CY3 would be significantly more challenging and the outstanding CY1 CVs needed to be finalised. It was noted that there were also strategic decisions to be made which had wider implications e.g. additional sailings to service communities but for which CVs would be required.
- **Yard Strategy** – this was an Agenda item.
- **Ardrossan** – an all-party meeting was scheduled for 7 February to agree the proposals.

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- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**,
- **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,
- **Winter 2018 timetable process completion** – Ministerial approval was awaited.
- **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,
- **Community Board** – next meeting to be held on 19 January 2018 in Oban.
- **Health Surveillance** – this was a legislative requirement.

[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]

AT

5.2 GROUP FINANCE UPDATE

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

5.2.1 DML Group Financial Results – November 2017

5.2.1.1 Group Profit & Loss

- Operating profit of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, YTD was adverse to Plan by **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, with adverse impacts including Farebox **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, while fuel costs had been slightly offset by reduced volumes. (CMAL berthing dues were adverse due to timing and would resolve by full year.) It was noted that the impacts of risks (e.g. crewing costs, crew training, ports, staff costs) were starting to materialise in the figures.

DML profits were **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, YTD adverse to Plan and included ATOS case legal costs. CFL CHFS2 was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, YTD adverse to Plan due to performance penalties.

5.2.1.2 2017/18 Group Financial Year Forecast

Group Profit forecast was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**, adverse to Plan of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**). Major impacts on forecast profit were:-

- Vessel maintenance: **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,
- Crewing: **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,
- CHFS2 performance penalties: **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,

Farebox: **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]**,

J Beckett reported that for December initial figures showed that revenue was positive but all other areas remained as per the November figures.

The Board, noting that management would continue to monitor financial performance

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against plan, asked for confirmation of the management actions that were being taken to improve the forecast profit position. **[FOISA Status - Exemption under Section 30 (Prejudice to the Effective Conduct of Public Affairs)]**,

It was noted that the Group Financial Year Forecast section was a very useful analysis.

5.2.1.3 Group Balance Sheet

- Group net asset position was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to plan **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** Group cash balance was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** as a result of the summer season fares income plus grant payment timing.
- CFL cash balance included CHFS Contract Year 1 reconciliation grant funding of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** due to Transport Scotland (including **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** RET fares income due to Transport Scotland, **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** (net) grant income re Contract Variations, clawback of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** of performance penalties) with **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** fuel supplement due to CFL.

5.2.2 CHFS2 Contract Year 2 Performance

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

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

5.2.2.3 Performance Penalties Deductions

This was noted.

5.2.2.4 Bid Commitments Update

This was noted.

5.2.3 **Gourock-Dunoon Summary Contract Year 7 Financial Performance**

- Operator Return before fuel was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** (positive **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** YTD)
- Work on the contract extension would be undertaken as part of the corporate planning process.

JB

Action: J Beckett agreed to establish with the Transport Scotland Procurement Department what they would require in the data room.

5.2.4 **Solent Gateway JV Summary Contract Finance Performance Expenditure**

- Operating loss in November was due to an overspend for accommodation against budget (per the requirement to include provision for future rental costs in current figures which has had a **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** impact YTD).
- Contractual accounts were being prepared.
- A full re-plan is underway to produce an operating budget for SGL in line with DML Group Planning cycle (2018-2020).

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6. **DISCUSSION TOPICS**

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

At this point B Fulton joined the meeting.

6.2 **MARCHWOOD (SGL) UPDATE**

The report from B Fulton was noted and it was reported that key areas of focus have been:-

- Port Director recruitment – this was in progress with two high calibre candidates.
- Asset Condition Reconciliation – a six month period following the Contract Effective Date had been established for a review of asset condition and the review & report had been completed within this period. However, dialogue with the MOD continued regarding the **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** required to bring the assets up to standard as there existed a difference of understanding between SGL and MOD as to what had been said at bid stage. The Mulberry dock was not impacted by these discussions as its poor condition was known.
- Dredging – the initial dredge had been carried out by SGL but paid for by the MOD as agreed.
- Railway – this work was complete and had been paid for by the MOD.
- Port Master Plan – there would be a presentation to the SGL Board next week.
- Governance arrangements – it was noted that improvements were being made in this area.

Outlook for Second Year

This was noted and reported as follows:-

- Mittal – a trial to establish the feasibility of loading/unloading was being undertaken.

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

Action: D McGibbon advised that he would come back to M Dorchester with the Board's views on the recommendations in this report.

At this point B Fulton left the meeting.

DMcG

6.3 **DELEGATED AUTHORITY SCHEDULE**

The Board noted the report and J Beckett reported that this was an updated version of the Delegated Authority Schedule which now reflected the new corporate structure and roles. She confirmed the parameters remained broadly in line with the previous

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Delegated Authority Schedule albeit more detailed.

The Board **APPROVED** the Delegated Authority Schedule.

At this point B Fulton joined the meeting.

6.4 **YEAR OF YOUNG PEOPLE**

A paper was tabled on the Year of Young People and B Fulton gave an overview of the aims and objectives and reported that the themes included education, health & wellbeing, enterprise and culture.

Action: B Fulton to provide more detail to the Board on the themes of the Year of Young People.

BF

B Fulton reported that the opportunities for CalMac included:

- On board promotions for Ambassadors or attendees going to Year of Young People events.
- Travel to Year of Young People events (discounted ferry travel could not be provided without approval from Transport Scotland however it was noted that Northlink in Orkney were providing free travel to Ambassadors).
- Consideration to Ocean Youth Trust training on CalMac vessels.
- Community Board role – potentially add a young person to the Board.
- CSR themed initiatives.

It was suggested that employment-related assistance could be provided e.g. mock-interviews in schools, or environmental activity such as marine observers.

Action: The Board were asked to submit their ideas to B Moglia.

Action: B Fulton would put together a plan for the March Board.

The Board authorised him to commence any appropriate initiatives before that date.

**All
BF**

At this point B Fulton left the meeting.

7. **ADDITIONAL PAPERS - FOR NOTING**

7.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

M Dorchester confirmed that the proposed Asset Management Team structure had not been approved.

8. **ANY OTHER BUSINESS**

8.1 **BRODICK PAS**

This report was noted and R L Drummond reported that the PAS had not yet received its CE mark so the options for using the PAS without it had been assessed. The conclusion was that there was no obvious, practical and safe option that did not adversely impact the timetable. It was also noted that this was not an insurable risk.

CalMac would shortly be taking over the building which would allow for staff training, procedure testing and IT testing prior to the certified PAS being brought into service.

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R Drummond confirmed that CalMac were happy with the PAS at Ullapool and Stornoway and that these two PASs operated slightly differently from the PAS at Brodick – requiring less frequent movement – and had both received the required certification.

8.2 **AUDIT SCOTLAND REPORT ON TRANSPORT SCOTLAND'S FERRY SERVICES**

Transport Scotland would soon be giving evidence before the Scottish Parliamentary Committee.

Action: A Tait advised this would be added to the Audit & Risk Committee Agenda.

AT/SRG

8.3 **MARINE & COASTGUARD AGENCY (MCA)**

A meeting had been held between the MCA and Transport Scotland at which the MCA had spoken positively about CalMac and its engagement with safety.

8.4 **COMMUNITY BOARD**

Angus Campbell, the Community Board Chairman would be meeting with the Minister for Transport shortly.

8.5 **BUSINESS DEVELOPMENT**

The Board noted that a strategic business development paper from K McGregor had been circulated to them for information.

Action: K McGregor would be asked to present her strategic paper to the February Board Strategy day.

MD (KMcG)

8.6 **FORTHCOMING MEETINGS & CONFERENCES**

1) **Scottish Shipbuilding Industry**

There would be a meeting with K Brown in February to discuss shipyards and shipbuilding in Scotland.

2) **Conferences**

M Dorchester noted that there were a number of conferences coming up.

Action: M Dorchester would circulate the list of conferences dates with his view of the usefulness of attending.

MD

9. **DATE OF NEXT MEETING**

Wednesday 14 February 2018 at 9.00 a.m.

Signed:
D C McGibbon
Chairman

Date: 2018

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