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DAVID MACBRAYNE LIMITED

MINUTES of the BOARD MEETING

held on Wednesday 14 February 2018 at 11.00 a.m.

at the Ferry Terminal, Gourrock, 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 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
K McGregor (KMcG) – Business Development Director (part)

Apologies:

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
	R Drummond reported that the Senior Executive Team had reviewed the safety moment process and drafted a policy and he would update the Board in due course.
	J Beckett tabled a photo of a ladder incident and reported that this seemingly unremarkable incident showed how easily things go wrong. Two people were working with a ladder: one at the bottom and one on it who was wearing a hat and a harness but was not attached to the ladder. He over-reached from the ladder, fell 3m and later died of his injuries. Neither man re-assessed the situation and called out the problem when it became clear that the man on the ladder could not easily reach without making changes. The Board noted that it was important to consider what the barriers to the men calling out the problem might be: company culture, seniority relationship between the two men, not wanting to appear foolish? Ultimately, though it was a simple incident that resulted in a fatality and the Board noted that it was important to convey the message that Health & Safety was not an imposition; it was there to keep people safe.
1.2 APOLOGIES FOR ABSENCE	
	There were no apologies for absence.

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1.3 **DECLARATIONS OF INTEREST**

There were no new declarations of interest on the part of Directors.

1.4 **MINUTES FROM BOARD MEETING OF 17 JANUARY 2018**

The Minutes of the Board meeting held on 17 January 2018 were **APPROVED**, subject to an addition to 8.1 Brodick PAS to reflect that R Drummond had 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, and the Chairman was **AUTHORISED** to sign the minutes.

S Hagan updated the Board on the Teckal Review meeting in Orkney. He reported that the union presentation had been very clear with consensus from those present on the union's line. In Orkney people were interested in the service provided rather than the process, whereas in Shetland there was a strong pro-tender process sentiment.

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R Drummond reported that the SGL Port Director interview would take place at the end of February.

1.5 **ACTION LOG**

The action log was discussed as follows:-

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** – 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 and ask A McCrae to recommence sending out the dates when Executive staff were out on network visits so that NEDs could accompany them. **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. C/fwd - this was ongoing as the data did not exist and would have to be created. **RD (JP)**

86.17 **Board meeting with Minister for Transport** – this had been scheduled for 14 March 2018 and D McGibbon and R Drummond would discuss the Agenda and circulate it to the Board. **DMcG/RD**

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2.18 **GROUP CEO UPDATE - Key Issues Last Month - Loch Linnhe & Riddon Re-Engineering** – This work had been carried out as an asset owner upgrade (funded by CMAL) and the post-dry dock failure had caused significant disruption with negative impacts including performance penalties, customer service and reputational issues. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

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3.18 GROUP CEO UPDATE - Key Achievements Last Month Disorderly Customers –
R Drummond handed out copies of the training materials to the Board.
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All other actions were for future meetings, complete or would be covered under Agenda items.

2. BOARD COMMITTEES & SUBSIDIARIES

2.1 AUDIT & RISK COMMITTEE

It was noted that the next meeting of the Audit & Risk Committee would be on Monday 19 February 2018.

2.2 SAFETY COMMITTEE – 1 FEBRUARY 2018

J Stirling reported that the Safety Committee had discussed the following:-

- Vessel / Port interface – a proof of concept project with Strathclyde University had been organised by L De Wolff and would seek to produce a set of operational limits.
- ALARP – this term had a defined meaning and if it was used then it would need to be demonstrated (management would need to calculate ALARP via an assessment of the costs of risk vs. sacrifice - with any decision weighted in favour of safety). ALARP also impacts CMAL and the work they do. ALARP assessments would need to be documented for the Unintended Movement and Bull Hole risks. For Bull Hole once CalMac had documented its ALARP assessment this would need to be handed over to Argyll & Bute Council for their decision or action (or their ALARP assessment).
- Near Miss Reporting – improvements in reporting and engagement from staff would be covered in the forthcoming newsletter.
- Annual Safety Report & Annual Environmental Report – these reports had been approved by the Safety Committee and would be circulated to the Board for comments prior to submission to Transport Scotland.
- Safety culture – the statistics were improving across the business and the Safety Committee discussed bearing in mind the dangers of complacency.

2.3 REMUNERATION COMMITTEE

The discussions at the Remuneration Committee taking place immediately after the Board meeting would be reported to the March Board.

3. CHAIRMAN'S REMARKS

3.1 INTERIM MANAGEMENT DIRECTOR

D McGibbon reported that R Drummond had been appointed as Interim Managing Director.

3.2 CONTRACT VARIATIONS – MEETING WITH TRANSPORT SCOTLAND

D McGibbon reported that a meeting between G Laidlaw & R Hadfield of Transport Scotland and M Comerford, A Tait, R Drummond and J Beckett to resolve the outstanding Contract Variations was scheduled for later that day.

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3.3 **TRIPARTITE MEETING**

D McGibbon reported that a meeting between himself, the Chairman of CMAL and J Nicholls & G Laidlaw of Transport Scotland had been scheduled and the relationship between CalMac and CMAL was very good. R Drummond reported that he had discussed progress of vessels 801 and 802 with CMAL **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

3.4 **FORTHCOMING MEETINGS**

There was a management strategy day scheduled for 16 February with a Board strategy day scheduled for 28 February with the 14 March Board meeting being held in Edinburgh.

3.5 **CEO RECRUITMENT**

D McGibbon reported that the Remuneration Committee members had produced a report which had been discussed by the NEDs earlier in the day.

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**

- **Ardrossan Task Force Meeting** – the Minister for Transport was looking for progress before the berthing trials. The corrected first simulation scheduled for 15 February had been cancelled as the amendments were not ready - the second simulation was scheduled for 5 March. The working of the simulation was carried out by CMAL/FEML and the testing by CalMac. There would be a meeting in mid-March to discuss costings and the output of the simulations. There may well be a shortfall between the base case estimate and re-alignment option estimate and it would need to be agreed who would pay for this.

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- **SGL** – A 1 Star meeting had been held with a 2 Star meeting to follow shortly. The major issues with the MOD were: dwell charges **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**; sponsored reservists - for which MOD had withheld payment (although under the Contract there was only an option to apply penalties plus consideration needed to be given to the Contract starting a year late); asset condition – these were in better shape than anticipated. SGL Board governance had been put in place and this was improving discussions.
- **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. The vessel was currently covering for the Finlaggan and, following a full risk assessment, was operating via Port Ellen as risk mitigation. There was also the risk that she could not provide cover on the triangle or of a total failure before the planned part replacement at end April.

Action: R Drummond was asked to report back on how failure would manifest itself

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(full ahead or neutral).

It was noted that breakdowns could result in performance penalties against CalMac and the issue of obsolescence was still to be agreed with Transport Scotland & CMAL.

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4.1.2 Key Achievements Last Month

- **Group Profit [FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- **Health Surveillance** – a strategy had been agreed to meet the requirements including on-site assessments for vibration/noise etc. It was noted that this would be expensive and had been included in the Corporate Plan and as it was a statutory requirement there was a risk of claims. The output of the assessments would be reported to the Safety Committee.
- **Near Miss Ratio** – this was 2.4:1 for January (up from an original figure of 0.4:1) with a target of 3:1 by September.

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- **Loch Linnhe & Loch Riddon** – these were back in service after monitoring of the Fenner coupling which, hopefully, will be a permanent solution.
- **Finlaggan In-Water Survey** – this had been successful and was part of a programme aimed to reduce dry-dock time.
- **Shortlisted for Times Educational Supplement ‘Apprenticeship Provider of the Year’**
- **Sunnyside Ocean Defenders & #NaeStrawAtAw** – a successful visit from Sunnyside Primary School. Plastic straws had now been removed from all CalMac vessels.
- **Community Board** – a successful meeting held in January and the Chairman had met with the Minister. The Board discussed whether it was appropriate to communicate anticipated delays to the new vessels to the Community Board and it was agreed that this should be done where the Community Board were progressing items based on vessel delivery dates.

4.1.3 Key Issues Next Month

- **Corporate Plan** – a separate Board meeting to discuss the Corporate Plan in early April would be discussed at the Board Strategy Day on 28 February.
- **Year 1 of CHFS2 Contract** – as discussed earlier a meeting would take place later in the day to progress outstanding Contract Variations.
- **Yard Strategy** – this had been discussed earlier in the meeting.
- **Maintenance Protocol** – this was noted.
- **Ayrshire Travel Summit** – this had been very interesting.
- **Asset Management** – resource in this team was a concern, particularly with the impact of an ongoing illness absence.

4.2 GROUP FINANCE UPDATE

The Board noted the report from J Beckett covering the period to end December and she reported as below.

4.2.1 DML Group Financial Results – December 2017

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4.2.1.1 Group Profit & Loss

- Operating profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** in the month and **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD with a full year forecast of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Key variances were noted and would, in future, reflect smoothed timings per the Corporate Plan giving more accurate monitoring.
- The Bank Facility of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** had not been used to date and once the Corporate Plan had been finalised there would be a review of requirements.

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)]**

4.2.1.3 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)]**

4.2.2 **CHFS2 Contract Year 2 Performance**

4.2.2.1 Summary Contract Year 2 Financial Performance

It was noted that the operator return was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for three months to end December with adverse impacts from maintenance and port costs, positive impacts from support services. Retail were currently reviewing their pricing and sales strategy.

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

4.2.2.3 Performance Penalties Deductions

This was noted.

4.2.2.4 Bid Commitments Update

This was noted.

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

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

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

- **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**High Level Balance sheet would be reported in the March Board report. **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

The Board commented that this was a very good report and noted that the position was largely unchanged from that discussed in detail at the January Board, except that the profit position had improved. They noted that the challenges for Contract Years 2 & 3 remained as previously discussed. They also noted that greater commerciality was being sought e.g. the Retail review.

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5. **DISCUSSION TOPICS**

5.1 **STRATEGIC DISCUSSION PAPER**

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

6. **ADDITIONAL PAPERS - FOR NOTING**

6.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

7. **ANY OTHER BUSINESS**

7.1 **AUTHORISED SIGNATORY**

This report was noted and J Beckett reported that approval was required for L De Wolff to become an authorised bank signatory (replacing M Dorchester) on the DML bank accounts listed in the report. She confirmed that as number of items required two signatures, three authorised signatories were appointed for operational reasons and that if a further, fourth signatory was required she would revert to the Board for approval.

The Board **APPROVED** the new authorised bank signatory and **RESOLVED THAT:**

- The **signing rules** in the current mandate, for the accounts detailed in the Application to Account(s) section, be replaced in accordance with the Signing Rules section; and/or
- The **authorised signatories** in the current mandate, for the accounts detailed in the Application to Account(s) section, be changed in accordance with the Add/Remove Signatories section, and the current mandate will continue as amended.

7.2 **SCHEDULE BOARD MEETING TO REVIEW CORPORATE PLAN**

Action: An April Board date would be agreed to review the Corporate Plan.

RD

7.3 **MARCH BOARD MEETING**

There would be a one hour meeting with the Minister for Transport prior to the March Board meeting at which items such as CHFS2 update, business development, live issues and the Minister's views would be discussed.

7.4 **BOARD STRATEGY DAY – 28 FEBRUARY 2018**

The Board agreed that this should be a full day meeting and agreed that an off-site venue in Glasgow should be booked.

Action: R Drummond to ask J Reyes to make the required arrangements.

RD

8. **DATE OF NEXT MEETING**

Wednesday 14 March 2018 at 1.00 p.m. in the Library, MacDonald Holyrood Hotel,

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Edinburgh.

Signed:
D C McGibbon
Chairman

Date: