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DAVID MACBRAYNE LIMITED
MINUTES of the BOARD MEETING
held on Wednesday 11 April 2018 at 9.00 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 (SMB)
R Drummond (RD)
S Hagan (SH)
J Stirling (JS)
A Tait (AT)

In attendance: R Hadfield (RH) – Assessor, Transport Scotland (part)
J Beckett (JB) – Interim Finance Director
A Peterson (AP) – Interim Business Performance Manager (part)
S R Griffin (SRG) – Company Secretary

Apologies: M Comerford (MC)

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
J Stirling commented that the public reaction to the fairlead failure on the Hebridean Isles had been positive with an appreciation of the need to resolve it safely before sailing was recommenced. R Drummond noted that during internal discussions of this issue safety had been prioritised above operational matters.	
1.2 APOLOGIES FOR ABSENCE	
Apologies for absence had been received from M Comerford.	
1.3 DECLARATIONS OF INTEREST	
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]	
1.4 MINUTES FROM BOARD MEETING OF 14 MARCH 2018	
The Minutes of the Board meeting held on 14 March 2018 were APPROVED , subject to an amendment to 4.2.4 to reflect that the MOD had not yet confirmed payment of the charges (although they had accepted these charges were in line with the contract), and the Chairman was AUTHORISED to sign the minutes.	
Regarding the SGL dwell charges invoiced to MOD, J Beckett advised that the External Auditors would be looking for certainty in respect of this revenue for the 17/18 Accounts	

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and the Board were advised that B Fulton was dealing with this matter.

R Drummond confirmed that there was no feedback to date in respect of the Perth Harbour Operations contract bid.

1.5 **NOTES FROM 14 MARCH 2018 MEETING WITH MINISTER FOR TRANSPORT**

The Board noted the Notes from 14 March 2018 meeting with the Minister for Transport. It was agreed that actions from this meeting would be picked up with management.

1.6 **ACTION LOG**

The action log was discussed as follows:-

54.17 **Network Visits** – Non-Executive Directors (NEDs) had been provided with the timetable for when Executive staff were out on the network. R Drummond advised that B Fulton had been tasked with providing questions, issues or areas (e.g. values, sickness absence and safety) for them to discuss on network visits.

RD (BF)

32.18 STRATEGIC ITEMS - CSR ACTIVITIES UPDATE

J Stirling queried whether CalMac had the power to give grants and it was noted that this fund was a bid commitment. S R Griffin would review the necessary corporate documentation to ensure that CalMac had these powers. C/Fwd

SRG

35.18 BOARD COMMITTEES & SUBSIDIARIES - SOLENT GATEWAY LIMITED – 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. B Fulton to review the table & circulate a revised version to Board. C/fwd.

RD (BF)

36.18 ANY OTHER BUSINESS - FRAMEWORK AGREEMENT

Action: R Hadfield agreed to send updated draft version to A Tait & S R Griffin. C/Fwd.

37.18 SCOTTISH CANALS BUSINESS REGENERATION & BUSINESS DEVELOPMENT PRESENTATION

RH

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. The Board agreed that Scottish Canals should be invited to present to the DML Directors and Executive.

Action: S Hagan would contact Scottish Canals regarding timing for this presentation.

SH

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

2. **CHAIRMAN'S REMARKS**

2.1 **MEETINGS WITH TRANSPORT SCOTLAND**

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

The attendance of the assessor at all Board meetings had also been discussed, it being noted that standard practice across peer group organisations was for the assessor to attend only upon invitation by the Board. D McGibbon noted that J Nicholls accepted the point in principle and undertook to revert to the Board with his suggestions after consulting his colleagues. The Board noted its preference that the Board should agree the assessor Board attendance and propose this to Transport Scotland.

RD

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Action: D McGibbon to liaise with Transport Scotland.

DMcG

2.2 RECRUITMENT OF CEO

D McGibbon reported that he and C Roberts had met with the agency tasked with progressing this to discuss the process and timetable. It was agreed that there would be a presentation to the Board following the 9 May Board meeting with the timings of the Board, RemCo and agency presentation to be communicated in due course.

Action: S M Browell would provide her input to interview questions for this process.

SMB

2.3 ATOS

It was noted that R Drummond had circulated a note to the Board regarding the court ruling in favour of CalMac in the ATOS court case with £1.2m plus costs having been awarded. R Drummond reported that a further court hearing would establish the exact amounts, with ATOS having a right to appeal.

2.4 BRODICK FERRY TERMINAL – OFFICIAL OPENING

D McGibbon reported that there would be DML Board and management representation at the official opening of the Brodick Ferry Terminal the following day.

2.5 CORPORATE PLAN 2018-19

It was noted that a Board meeting to discuss and approve the Corporate Plan had been arranged for 25 April (following the Audit & Risk and Safety Committee meetings).

2.6 NEW SENIOR MANAGEMENT HIRES

It was noted that a new IT Director and an interim Service Delivery Director had now taken up their roles.

2.7 GOUROCK-DUNOON / NORTHERN ISLES CONTRACTS

An extension to the Gourock-Dunoon contract had now been signed with circulation of the formal tender details awaited. There was no update on the date or status of the Northern Isles contract tender.

2.8 ISLAY & JURA SUMMIT

It was noted that R Drummond had circulated a note from the Islay & Jura Summit which had been a productive event.

3. BOARD COMMITTEES & SUBSIDIARIES

3.1 AUDIT & RISK COMMITTEE

A Tait reported that he and J Beckett had met with M Wilkie, the new team lead at KPMG, the External Auditor, and that KPMG would be attending the forthcoming Audit & Risk Committee. Items discussed with KPMG included Contracts, tenders for Gourock-Dunoon and Northern Isles and tonnage tax. KPMG also reported that there had been no issues arising from their initial work on the annual audit.

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He reported that consideration was being given to going out to tender for the External and Internal Audit contracts – for reasons of good governance, rather than due to any issues experienced with the auditors. These would need to be done sequentially to ensure that the successful External Auditor did not tender for the Internal Audit contract.

A Tait reported that he had received an update from B Fulton on SGL. A series of meetings were taking place with the cruise company to progress that commercial opportunity and an update was anticipated by mid-May. A recruitment agency had been appointed in respect of the Port Director vacancy (the individual interviewed recently had not proved suitable) and the role description and salary range had been finalised. The Port Master Plan was nearing completion. A Health, Safety & Environment Report had been added as a standing item to the SGL Board Agenda. It was noted that the Sponsored Reservists (SRs) recruitment target was challenging however the MOD was providing support and ex-military personnel were being targeted. It was felt that the salary level was an issue.

Action: S R Griffin was asked to check whether SGL pay levels were a Shareholder Reserved Matter under the JV Agreement.

SRG

At this point R Hadfield joined the meeting.

3.2 SAFETY COMMITTEE

J Stirling reported that, as with the Audit & Risk Committee, preparations were underway for the 25 April Committee meeting. He would be discussing with R Drummond the role of management (versus the HSQE team) at the Safety Committee.

3.3 REMUNERATION COMMITTEE

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

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

- **Vessels** – a tailshaft condition issue on the Clansman had two possible outcomes: 1) the areas of concern were fixed in about a week; or 2) a complete replacement was required taking 2-3 months. The solution and impact would be established over the next few days. Chartering options for a replacement vessel were being investigated with CMAL. It was noted that the Hebrides dry docking could not be delayed beyond 25 April.

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

4.1.2 Key Achievements Last Month

- **Group Profit** – **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD with full year profit forecast of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. The DML share of SGL's profits would be **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** although commercial development would be needed to ensure

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future profits.

- **Transport Minister meeting** – Notes from this meeting had been discussed earlier.
 - **Corporate Plan** – Board meeting to discuss & approve the Plan had been scheduled.
 - **IT Director & Interim Service Delivery Director** – they were both now in-situ.
 - **Succession Planning Session** – the Executive Team had held a succession planning session following up last year's. The staff who had scored into higher boxes had been promoted during the year, however this had left gaps in the level below while more junior staff gained experience.
- Action:** C Roberts to be asked to provide a summary to the May Remuneration Committee.
- **Brodick PAS** – there had been a couple of failures which had been rectified. The formal opening of the Terminal would be the following day.
 - **Gourock-Dunoon** – a 9 month contract extension had been approved and signed.
 - **Marine Awareness Programme** – this involved partnering with 12 organisations and carrying out wildlife surveying, with the Wildlife Officer sailings added to the website.
 - **Gender Pay Gap** – although CalMac (10%) were below the national average (16%), actions were underway to bring this down.

RD (CR)

4.1.3 Key Issues Next Month

- **Corporate Plan** – J Beckett was working on how the Corporate Plan would be cascaded to staff post-approval.
- **Islay & Jura Summit** – this had focused on economic sustainability including roads & ferries and had noted that Islay ferry traffic had grown 50% in five years. The viability of a freight ferry was to be assessed and R Drummond reported that a high level CalMac assessment of viability would be produced.
- **Contract Variations** – a Transport Scotland CV escalation meeting would be arranged.
- **Maintenance Protocol** – work on this was ongoing – the charters specified that CalMac should have quiet enjoyment of fit-for-purpose vessels.
- **Draft Telecoms Network Replacement Strategy** – this would be presented to the PMB.

4.2 GROUP FINANCE UPDATE

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

4.2.1 DML Group Financial Results – February 2018

4.2.1.1 Group Profit & Loss

J Beckett reported that:-

- Net profit was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** to re-based Plan) and operating profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for the month with Farebox and Retail ahead of Plan for February. She confirmed that Interest Receivable was interest on cash while Interest Payable was the non-utilisation fee on the banking facility.
- Summary Operating Profit Variance to Plan was noted and included:
 - Vessel Operations: Crewing was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD

The Operating Profit reporting included:-

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- CHFS2 adverse to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** which included **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Gourock-Dunoon adverse to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** due to a reduced CY6 Contract Variation for vessel maintenance
- SGL operating profit was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for the month and the Port Director recruitment was key to progressing new business development opportunities.

It was confirmed that in respect of the impact of insurance claims on insurance premiums, these tended to be viewed over a >1 year period.

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)]** including DML's share of SGL profits) with an anticipated profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** ex-SGL.

JB

Action: J Beckett was asked to add a Forecast column to the reporting tables and she advised that she would be looking to develop the financial reporting once the Corporate Plan had been approved, including quarterly forecasting.

4.2.1.3 Group Balance Sheet

- Group net asset position was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Cash due to Transport Scotland was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with a payment on account of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** paid in March.
- Debtors of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** included overhauls and berthing dues with CalMac having very low levels of bad debts.

J Beckett advised that cash flow information would be added to the report after Corporate Plan approval.

4.2.2 **CHFS2 Contract Year 2 Performance**

4.2.2.1 Summary Contract Year 2 Financial Performance

Operator Return pre Clawback was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with variances from:-

- Support staff – negative variance
- Port & Harbour Dues – positive variance

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

4.2.2.3 Performance Penalties Deductions

It was noted that there would be a presentation on this topic later in the meeting including the differences between the CHFS1 and CHFS2 contracts.

The Board noted the detailed performance penalty deduction information including the

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costs by top 5 vessels. They noted that CHFS2 CY1 performance penalties of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** had been incurred despite contractual reliability of 99.48%. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

The Board noted the CHFS Performance Deductions Trends data and it was commented that this information was very useful.

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

4.2.3.1 **Summary Contract Extension Year 1: July 2017-February 2018 Financial Performance**

- Operator Return before fuel was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD) with seagoing expenditure **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** positive to contract due to lower crew costs.

J Beckett reported that a 9 month contract extension from April 2018 to January 2019 had been signed.

4.2.3.2 **Performance Penalty Deductions**

This information was noted.

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

- Operating Profit included a one-off impact from revenue recognition adjustments and continued to be adversely impacted **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD) by the revised Rent & Rates accounting treatment.
- The 2018-19 SGL Plan was still to be finalised and approved by the SGL Board. **SRG**
Action: S R Griffin to review the Shareholder Matters Reserved for SGL to establish whether DML should be receiving or approving the SGL Business Plan.

5. **STRATEGIC ITEMS**

5.1 **BUSINESS DEVELOPMENT UPDATE**

R Drummond reported that MOD opportunities continued to be assessed and there had been CalMac attendance at the MOD Expo in Wales. The priorities were the Gourock-Dunoon tender and vessels required for this, followed by the Northern Isles tender (with feedback to be sought from the areas covered by the service as part of the tender preparations). He reported that K McGregor would be attending the next Board meeting. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

5.2 **CORPORATE PLAN 2018-19**

J Beckett confirmed that the Corporate Plan documentation would be issued a week before the Board meeting now scheduled on 25 April 2018.

Action: R Hadfield would confirm what Transport Scotland review was required. **RH**

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

At this point A Peterson joined the meeting.

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6. **DISCUSSION/DECISION TOPICS**

6.1 **PERFORMANCE PENALTY REGIME**

The Board noted the presentation from A Peterson and she outlined what performance deductions were and how they were calculated:

- Reason for lateness (mechanical; volume of traffic >70%; berth not free all incur penalties)
- How long the sailing was scheduled to be (three bands A ≤30 mins, B 60-90 mins, C >90 mins)
- The amount given to run the sailing (per bands A, B & C)
- How late the sailing was (three levels for each sailing band with penalties of 25% of AGRS at Level 1 lateness, 50% for Level 2 and 100% for cancelled sailings)

She reported that data was input by Port staff from data produced by on-board crews and work was being undertaken to ensure that staff reported accurately on timing and technical coding. She confirmed that timings were based on Ropes On/Ropes Off.

Business performance reporting enabled reporting to Transport Scotland and internal customers as well as producing information for planning work such as overhauls, contingencies and port availability.

A Peterson briefed the Board on outputs from the CY1 deductions analysis with breakdowns by lateness levels & reason with analysis of the number one reason 'mechanical' (costs by vessel and number of cancellations). Detailed scrutiny of level 1 lateness volume of traffic <70% deck capacity had shown that Wemyss Bay-Rothesay incurred the highest penalties while analysis of level 2 lateness had shown the MV Isle of Lewis to have the highest number of mechanical issues.

The Board noted the information on performance deductions for lateness, cancellations and all deductions for CY2 to date compared to CY1 and A Peterson reported that there was a variety of ways the data could be used and demonstrated three scenarios e.g.:

- Route reviews (inc. comparing previous and current vessel performance)
- Technical issues with a vessel causing it to take longer to complete a run
- Review of a route timetable

The information presented would be used to update reporting to Transport Scotland, hold discussions with internal customers, assess what information would be useful and build reporting based on need including production of a monthly summary of deductions with details.

The Board noted that CHFS2 was a new contract for both parties and the useful data presented highlighted the dilemma of cost versus customer service - and the need to avoid driving unwanted behaviours from staff. It was also noted that this data could be used for many purposes not just performance penalties e.g. obsolescence reviews. R Drummond commented that this quality of information was not available for ticketing and was sorely missed by the Commercial Team.

At this point A Peterson left the meeting.

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6.2 PORT REFURBISHMENT – PROJECT FINAL BUSINESS CASE

The Board noted the Final Business Case and R Drummond reported that it had been approved at the Project Management Board and ExCo and covered a bid commitment of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** spend.

He reported that the refurbishment project was looking to spread its spend across the network & ports and it would be based on a broad policy which had been tested. Although it was intended that areas would be standardised, newer items would not be replaced where it was not reasonable. Signage would be standardised and replaced. CMAL had been consulted on the project and, where appropriate, work would be carried out in conjunction with them.

The Board discussed the project final business case and noted that there was no financial benefit however this was a bid commitment. It was suggested that the chosen supplier could be incentivised to keep costs down and R Drummond agreed to explore this with them. He confirmed that the spend was capped at **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and should the costs of the initial phases prove high then the scope would be scaled back.

R Drummond confirmed that use of local contractors by suppliers was one of the items in the tender scoring.

The Board **APPROVED** the Port Refurbishment Project Final Business Case.

6.3 VESSEL REFURBISHMENT – PROJECT FINAL BUSINESS CASE

The Board noted the Final Business Case and R Drummond reported that it had been approved at the Project Management Board and ExCo. He reported that this project, a bid commitment to be undertaken within the first three years of the contract, would produce financial benefits with faster throughput for food and improved retail which would assist with achieving the increased retail revenue targets in the Corporate Plan. Furthermore the project would contribute to life extension of the facilities by bringing forward future spend.

The project budget was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and would be spread to include additional vessels. Five vessel refurbishments had already been completed and had come in under budget. R Drummond reported that there would be no staffing or service impacts as the work would be carried out in dry dock.

The Board discussed the project and R Drummond and J Beckett confirmed that they would assess the opportunity to use a single contractor to carry out the fitting of the internal areas (e.g. per a shopfitting model) and incorporate this into the lessons learned from the first five fit-outs.

The opportunity for positive PR was discussed and it was noted that the project team had incorporated feedback from customers into the specifications.

R Hadfield asked whether, apart from the bid commitment, this was spend that CalMac

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would choose to make at the current time. The Board discussed this project in the context of obsolescence and vessel life extension and it was noted that a high level assessment of obsolescence was underway. Vessel life extension would be reviewed by the Network Strategy Group.

RH

Action: R Hadfield agreed to discuss the project spend and bid commitment versus obsolescence at Transport Scotland.

The Board **APPROVED** progressing the Vessel Refurbishment Project with Transport Scotland's view to be communicated in due course.

7. **ADDITIONAL PAPERS - FOR NOTING**

7.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports and that sickness absence on the Hebrides had improved following HR intervention.

7.2 **POLICY REVIEW UPDATE**

No update in the period.

8. **ANY OTHER BUSINESS**

8.1 **TIMES EDUCATIONAL SUPPLEMENT**

It was noted that the CalMac Modern Apprenticeships had received a highly commended.

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

8.3 **MEETINGS WITH MINISTER OF TRANSPORT**

It was noted that the Minister for Transport had requested more frequent meetings with smaller groups of Directors.

Action: R Hadfield agreed to schedule a date prior to the June recess.

RH

12. **DATE OF NEXT MEETING**

Wednesday 25 April 2018 at 4pm (Corporate Plan approval).

Wednesday 9 May 2018 at 9.00 a.m.

Signed:
D C McGibbon
Chairman

Date: