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DAVID MACBRAYNE LIMITED
MINUTES of the BOARD MEETING
held on Wednesday 13 June 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)
M Comerford (MC)
R Drummond (RD)
S Hagan (SH)
J Stirling (JS)
A Tait (AT)

In attendance: J Beckett (JB) – Interim Finance Director
K McGregor (KMcG) – Business Development Director (part)
S R Griffin (SRG) – Company Secretary

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
J Stirling noted that, having assessed his own fatigue levels, he travelled to the Board by public transport as he deemed it was the safer course of action.	
1.2 APOLOGIES FOR ABSENCE	
There were no apologies for absence from Board members, although it was noted that R Hadfield, the assessor had tendered his apologies.	
1.3 MEETING WITH THE MINISTER FOR TRANSPORT	
D McGibbon reported that R Hadfield had provided an update on the forthcoming meeting with the Minister scheduled for 30 July – although it was still to be confirmed whether it would be the full Board or a smaller group that were to attend.	
The Board discussed the items for discussion with the Minister which included: [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]	
➤ It was also noted that the relationship between CalMac and Transport Scotland was seen in certain communities as too close and there was a perception that CalMac would not put customers and business users' interests ahead of those of Transport Scotland.	
➤ CMAL funding constraints and its impact on a life extension plan for the fleet.	
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]	
Action: R Drummond and S R Griffin to produce a list of issues for discussion at the Board's	RD/SRG

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meeting with the Minister of Transport.

1.4 **DECLARATIONS OF INTEREST**

There were no declarations of interest in respect of Agenda items.

1.5 **MINUTES FROM BOARD MEETING OF 9 MAY 2018**

The Minutes of the Board meeting held on 9 May 2018 were **APPROVED**, subject to changes to section 3.1 - to include additional wording and 4.1.1 substitute 'DML Board' for DML Directors'.

The Chairman was **AUTHORISED** to sign the minutes.

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

A Tait advised that the results of the Audit & Risk Committee self-evaluation would be brought to the Board and that the ARC had felt that, as part of this process, the Board should carry out a self-evaluation exercise.

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 reported that B Fulton would circulate the list of questions, issues or areas for Non-Executive Directors to discuss on network visits.

RD (BF)

77.17 Royal National Mod - Board noted the importance of CalMac's sponsorship to the Mod and discussed future intentions. R Drummond reported that there would be two sponsorship strategies: 1) Marketing/Commercial sponsorship strategy aimed at driving revenue and 2) Stakeholder sponsorship strategy coming from B Fulton's area.

It was agreed that D Cannon as a Mod Board member should not be involved in proposals in respect of Mod sponsorship. The Board felt that it was important that the Mod sponsorship was discussed well before the end of the current sponsorship arrangements.

**RD
(KMcG/BF)**

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

36.18 ANY OTHER BUSINESS - FRAMEWORK AGREEMENT

R Hadfield agreed to send updated draft version to A Tait & S R Griffin.

R Hadfield reported that he had had discussions at Transport Scotland about the Transport Scotland CEO's role within the Framework Agreement. A Tait reported that, further to discussions at the Audit & Risk Committee, he would be reviewing the scope of the Framework Agreement to ensure that it was appropriate for the current situation i.e. now that the CHFS2 Contract was in place. C/fwd in R Hadfield's absence.

RH

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

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[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)]

52.18 MEETINGS WITH MINISTER OF TRANSPORT

Noted that the Transport Minister had requested more frequent meetings with smaller groups of Dirs. **Action:** R Hadfield agreed to schedule a date prior to the June recess.

Complete – scheduled for 30 July and discussed earlier in the meeting.

53.18 BOARD COMMITTEES & SUBSIDIARIES - AUDIT & RISK COMMITTEE

➤ Risk Management Strategy – a draft had been reviewed by the Committee.

Action: the draft Risk Management Strategy was to be circulated to the Board.

It was noted that the draft Risk Management Strategy was being revised and would be reviewed by the ARC before coming to the Board.

56.18 GROUP CEO UPDATE - Key Achievements Last Month

➤ **Perth Harbour** – this bid had been won by CFL and announced publicly although the legals were still to be completed. This bid would be used as the model for any future harbour operating opportunities.

Action: R Drummond agreed to circulate the risk assessment to the Board. Complete.

R Drummond confirmed that although there were staff TUPE'ing over with the Perth Harbour contract this did not include a manager and, therefore, this post was being advertised.

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

2. CHAIRMAN'S REMARKS

2.1 DISRUPTIONS / VESSEL ISSUES

D McGibbon reported that the MV Clansman was back in service and the timetable was fully operational.

2.2 RURAL ECONOMY & CONNECTIVITY COMMITTEE

D McGibbon reported that press coverage of the CalMac attendance at this Committee had been reasonable.

3. BOARD COMMITTEES & SUBSIDIARIES

3.1 AUDIT & RISK COMMITTEE – 25 APRIL 2018

The Board noted the draft ARC minutes from the meeting held on 25 April 2018.

3.2 SAFETY COMMITTEE – 25 APRIL 2018

The Board noted the draft ARC minutes from the meeting held on 25 April 2018.

It was noted that Argyll & Bute Council had appointed a contractor in respect of the Bull Hole issue raised by CalMac and L De Wolff would establish what work the contractor had been requested to carry out – and indicative timescales.

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3.3 REMUNERATION COMMITTEE – 9 MAY 2018

S Hagan reported that the Remuneration Committee had approved the Executive Bonus Scheme which they felt was an improved, well designed scheme. The Committee had formed a sub-committee, the Contract Requisitions Approval sub-committee, to cover those meetings convened solely to approve contractor requisitions approvals between Remuneration Committee meetings.

3.4 SGL JV UPDATE

The Board noted that there would be strategy session on the Solent Gateway joint venture at Marchwood later 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

- **Disruption** – this was now over and normal scheduled sailings had been resumed. Despite the disruptions in May, +7% passengers and +14% vehicles had been carried compared to May 2017. There had been few customer complaints with pressure mainly coming from stakeholders in northern areas (those communities facing the biggest disruption to service). Staff had performed extremely well throughout the crisis. The total loss was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** split over March and April. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**.
- **Rural Affairs Committee** – the CalMac comments regarding lack of vessel cover and respective responsibilities of Transport Scotland and CMAL were now a matter of public record.
- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
- **FUGs** – three Ferry User Groups had been attended and the focus had been on the VRDP and long-term Transport Scotland strategy. The Uist meeting, in particular, had been strategic and productive. R Drummond would be discussing with A Campbell, Community Board chairman, how these Committees fitted into the stakeholder group structure (i.e. with the CalMac Community Board and Ferry Committees).
- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
Action: this subject was to be added to the list of items for the Board to discuss with the Minister.
- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**.

4.1.2 Key Achievements Last Month

- **Western Isles Trip** – R Drummond had undertaken a trip to the Western Isles to meet local stakeholders.
- **B2B desk** – this team had been successfully working in partnership with businesses to free up car deck space.
- **MCA Document of Compliance** – this had been approved and L De Wolff and C Roberts

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would be looking at the requirements and whether employee agreements were necessary.

- **Head of IT Infrastructure** – an ex-V-ships employee had been appointed who would bring good industry knowledge.
- **Iolaire Commemorations** – the Loch Seaforth crew were keen to be involved.

4.1.3 Key Issues Next Month

- **Executive Team Away Day** – a productive session had been held the previous day.
- **Summer 2019 Timetable** – initial community requests would be shared with Transport Scotland.
- **Interferry Security Conference** – this would take place on 27 June.

At this point K McGregor joined the meeting.

4.2 GROUP FINANCE UPDATE

The Board noted the report from J Beckett covering the period to end April; she tabled an update to end May and reported as follows:-

4.2.1 DML Group Financial Results – April 2018

4.2.1.1 Group Profit & Loss

J Beckett reported that April's data included the impact of the disruption.

- Operating loss for April was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Key variances were:
 - Farebox revenue **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Performance penalties **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Crewing costs including overtime **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**Port staff costs including overtime **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Operating profit for May **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**Revenue
 - Farebox revenue **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Retail revenue **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Clansman charter **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
 - Expenditure
 - Vessel maintenance adverse **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**including oil distribution boxes which may be recoverable from the insurers. Asset Management were looking at costs savings via improved stock management.
 - Crew/crew training adverse **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**although there was new governance being put in place for the approval of training and sickness absence had improved. R Drummond noted that line management had worked hard to reduce sickness absence rates. The northern ports had had no sickness absence during May. J Beckett reported that Service Delivery were working on cost saving initiatives within crewing including reviewing expenses.

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- Port staff costs adverse **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Support services positive to Plan at **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** including IT costs of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** re Compass servers. It was noted that there was improved governance around fulfilment of IT hardware requests from the business.
- Project Expenditure timing variances positive to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.

R Drummond noted that March and April figures had been impacted by the MV Clansman costs & disruptions however May showed an improved position. The Board noted that CalMac were being penalised via performance penalties for obsolescence impacts across the fleet and that obsolescence was a significant uncontrolled risk.

A Tait commented that it was good to note that all the Executive Team were looking for costs saving opportunities, not just the Finance Team.

J Beckett reported that the fuel hedge had generated savings in the month of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for Transport Scotland and approx. **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** in the 8 months since it had been put in place. It was due to end after 3 years in September 2020 and the hedge company's offer to extend it for a further year had been communicated to Transport Scotland.

The Board were advised that the IFRS-adjusted draft accounts for 17/18 showed a lower out-turn **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** as, under IFRS, the still unapproved CVs could not be recognised as revenue.

4.2.1.2 Group Balance Sheet

- Group net asset position was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Cash position was **[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

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

- Seagoing expenditure including crewing costs of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and vessel maintenance **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. R Drummond reported that now this season's overhauls had been completed future overhaul planning could be progressed.

4.2.2.2 Contract Variations & Funding Update

The Contract Variation information was noted and this topic had been discussed earlier in the meeting.

4.2.2.3 Performance Penalties Deductions

This information was noted..

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

4.2.3.1 **Summary Contract Extension Year 2: April 2018 Financial Performance**

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

4.2.3.2 **Performance Penalty Deductions**

This information was noted.

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

This data was noted.

4.2.5 **Commercial – Revenue Target Update**

K McGregor updated the Board on progress against the Commercial strategy:-

- Farebox revenue strategy (which included efficient use of space on vessels) was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for April, **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for May and net **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD at **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Retail revenue strategy (which included increasing volume of sales and spend per head) was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**.
- Commercial strategy included ensuring a great customer experience.

Negative impacts for April included: start of Easter occurring in March, poor weather, and the vessel disruptions. May had also had an amended timetable with vessel disruptions but two bank holidays and good weather had resulted in a passenger number increase **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** an example being **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** passengers on the Largs to Cumbrae route.

K McGregor reported that there was now greater awareness of individuals' roles in achieving Plan targets. Key markets had been identified: 1) islanders, 2) leisure/visitors (categorised under the Visit Scotland segments) and 3) commercial. Using the Visit Scotland segments a tactical campaign was being drawn up to increase spend and to identify routes that had spare capacity (e.g. foot passengers or off-peak car deck).

Marketing were analysing who CalMac's customers were, what the business offered that matched their needs and the most effective channels through which to target them (with measurements of effectiveness). K McGregor confirmed that targeting groups would be carried out at a route-specific level and that the team were reviewing partnerships and meeting with organisations such as DMOs and Visit Scotland. Furthermore they were reviewing spend to ensure it was value for money. M Comerford suggested looking into setting up texts to relevant organisations when weather conditions were favourable e.g. surfing groups (in the same way that Ski Scotland did re snow conditions) to increase traffic on routes.

Retail were working to introduce an online sales channel and the recent pricing policy changes had already had a positive impact. The average spend per customer was £2.63 and

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work would be done to analyse this further. K McGregor reported that the Commercial team were using data to bring about improvements and there was increasing understanding of the factors both within & outwith control with management taking steps to achieve the Plan.

She reported that the team had held a workshop after the April figures had been collated and a tactical approach was being taken. It was noted that the focus was on revenue generation, including making better use of car deck space.

At this point K McGregor left the meeting.

5. **DISCUSSION/DECISION TOPICS**

5.1 **OBSOLESCENCE**

It was noted that the Obsolescence discussion paper sent to CMAL and Transport Scotland had been circulated to the Board. R Drummond reported that CMAL and Transport Scotland were both in agreement that obsolescence was a CMAL responsibility and that a protocol was needed. The underlying issue was not where responsibility lay but rather financing of upgrades.

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

R Drummond reported that J Philpott was developing a definition of obsolescence for agreement with CMAL and this would be progressed before his meeting with the Minister for Transport on 26 June as it was a key component of resilience.

Action: R Drummond would produce a tactical plan outlining the steps required to resolve this issue.

RD

5.2 **DORMANT COMPANY STRIKE-OFFS**

The report from S R Griffin and J Beckett was noted and S R Griffin reported that there were five companies within the DML Group that had been dormant since incorporation.

These companies had originally been formed for name protection purposes for potential or existing ferry services, however without full trademarking or active usage of these names it was not clear that this strategy would be successful. Furthermore it was no longer company strategy to use different companies for different ferry service contracts.

The Board, as shareholder of the companies, noted the striking-off the five dormant companies listed below:-

- Arran Ferries Limited
- Bute Ferries Limited
- Cumbrae Ferries Limited
- Gigha Ferries Limited
- Mull Ferries Limited

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

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6. **ADDITIONAL PAPERS - FOR NOTING**

6.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

R Drummond confirmed that the bi-annual Timetable process provided an opportunity for communities to provide feedback and input after which draft timetables were submitted to Transport Scotland. There was now a robust and transparent process in place whereby Transport Scotland's reasons for rejecting change requests were clear.

R Drummond reported that an Integrated Operations Control Centre (IOCC) was being set-up to manage disruptions and would communicate with ports, the contact centre and other relevant parties.

Asset Management upgrades – R Drummond confirmed that the MV Hebridean Isles crew accommodation upgrade could not be delivered as originally planned and a different solution was being drawn up, however this upgrade would be carried out.

The Board noted that they had received the IT emergency plan covering a Horsebridge Network Systems failure. R Drummond confirmed that this plan was being expanded to a full action plan and that any Board comments or queries should be raised with S Hulme direct.

6.2 **POLICY REVIEW UPDATE**

There were no Policy Updates in the period.

7. **ANY OTHER BUSINESS**

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

7.2 **GDPR**

R Drummond advised that, per GDPR, sensitive information should not be sent to private email addresses (including those of Board members).

Action: R Drummond and S R Griffin would produce a Policy and Procedure document for the Board on handling and disposal of sensitive information, including Board packs and emails.

RD/SRG

7.3 **MV Clansman**

J Stirling reported that on a recent ORCA cetacean recording trip he had witnessed the MV Clansman Master allowing bridge team members to berth the vessel under his supervision and it had been an excellent piece of crew training/development. R Drummond confirmed that all Masters had been encouraged to develop their crew's skills and crew had log books to record all such training.

The Board were advised to contact K Chamberlain for information on ORCA training.

7.4 **SEPTEMBER BOARD MEETING**

M Comerford asked whether it was feasible to move the September Board meeting as he

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would not now be available.

Action: As it had not proved straightforward to re-schedule the September meeting at this **DMcG/SRG** meeting, D McGibbon and S R Griffin would discuss re-scheduling the Board meeting.

8. **DATE OF NEXT MEETING**

Wednesday 29 August 2018 at 9.00 a.m.

Signed:
D C McGibbon
Chairman

Date: