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DAVID MACBRAYNE LIMITED
MINUTES of the BOARD MEETING
held on Wednesday 9 May 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: R Hadfield (RH) – Assessor, Transport Scotland (part)
J Beckett (JB) – Interim Finance Director
K McGregor (KMcG) – Business Development Director (part)
D Gledhill (DG) – Business Development Manager (part)
S Hulme (SHulme) – IT Director (part)
S R Griffin (SRG) – Company Secretary

Item	Action
1. <u>GOVERNANCE</u>	
1.1 SAFETY MOMENT	
R Drummond distributed photographs from the recent Southwest Airlines incident which had resulted in a passenger fatality and raised two points:	
1) the incident should not have happened, the engine cowling was supposed to have been designed to withstand engine blade failure - it was assumed within the industry that this risk had been engineered out. The Board discussed the fact that this was a low probability but high impact incident.	
2) A number of passengers in the photo were not wearing their oxygen masks correctly i.e. over their mouth <u>and</u> nose. It was agreed that this highlighted the need to regularly refresh safety messages e.g. the recent new CalMac safety video.	
1.2 APOLOGIES FOR ABSENCE	
There were no apologies for absence.	
1.3 DECLARATIONS OF INTEREST	
There were no declarations of interest in respect of Agenda items.	
1.4 MINUTES FROM BOARD MEETING OF 11 APRIL 2018	
The Minutes of the Board meeting held on 11 April 2018 were APPROVED and the Chairman was AUTHORISED to sign the minutes.	

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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 provided a draft list of questions, issues or areas (e.g. values, sickness absence and safety) for Non-Executive Directors to discuss on network visits and this would be re-worked and then circulated.

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

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 it had been agreed at the Audit & Risk Committee that the scope of the Framework Agreement needed review to ensure that it was appropriate for the current situation i.e. now that the CHFS2 Contract was in place.

AT/RH

37.18 SCOTTISH CANALS BUSINESS REGENERATION & BUSINESS DEVELOPMENT PRESENTATION

The Board noted that the Scottish Canals Regeneration presentation they had attended the previous day had been very interesting.

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

49.18 STRATEGIC ITEMS VESSEL REFURBISHMENT PROJECT FINAL BUSINESS CASE

R Hadfield reported that Transport Scotland had agreed that bid commitment spend should continue as planned.

[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 grps of Dirs. Action: R Hadfield agreed to schedule a date prior to the June recess.

RD

This was in progress with the request made. C/fwd.

RH

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 staff had worked hard to deal with these issues and communications had been good. The Minister had answered questions in the Scottish Parliament on this matter.

2.2 **EVENTS**

D McGibbon reported that the Islay Memorial and Tiree events had been attended.

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2.3 MEETING WITH MINISTER

D McGibbon reported that he had discussed with the Minister for Transport: disruption; the CEO appointment; **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

2.4 801 & 802

There was no update.

2.5 CONTRACT VARIATIONS

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

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

2.7 TRANSPORT SCOTLAND

D McGibbon reported that J Nicholls would be leaving in June although he would still sit on the DML CEO selection panel.

2.8 CEO RECRUITMENT

It was noted that there would be a Board update later in the day from the agency taking forward the CEO recruitment process.

2.9 GOUROCK-DUNOON

No update on this tender.

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

2.11 SHIPPAX CONFERENCE

D McGibbon reported that this had been a good conference and there was optimism across the European ferry industry although Brexit was a concern.

3. BOARD COMMITTEES & SUBSIDIARIES

3.1 AUDIT & RISK COMMITTEE

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

The Committee had discussed the Audit Scotland report on Transport Scotland's ferry services **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

He reported that:

- GDPR was on target
- Internal Audit Plan 18/19 had been approved with good progress on outstanding actions and realistic timescales to be agreed in future
- External Audit plan had been presented

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- An Audit & Risk Committee meeting was planned for end June/beginning July
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]
- Committee self-evaluation had been discussed and it was felt that this should also be carried out by the Board - taking a 5-10 year view and reviewing the work of the Board.
- Risk Management Strategy – a draft had been reviewed by the Committee.
Action: the draft Risk Management Strategy was to be circulated to the Board.

RD

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

Vessel obsolescence had also been discussed at the Transport Scotland meeting and it was noted that it had been agreed during the CHFS2 Contract process that Transport Scotland would draw up a protocol to deal with obsolescence. Therefore a CalMac / CMAL / Transport Scotland discussion on vessel / equipment obsolescence was required. The Board noted that breakdowns cost CalMac both for repair and also performance penalties however they did not have the ability to mitigate those incidents that resulted from obsolete parts failures. Upgrading of vessels was a CMAL responsibility as vessel owner however the Board noted that if they were not provided with the budget to perform this work they would be not be able to mitigate the risks either. It was noted that the DML Board and CalMac management understood the position which CMAL were in. It was also noted that there were safety aspects to obsolescence. Transport Scotland had agreed to come back on this matter however it was suggested that CalMac could encourage progress by, for example, producing a definition of obsolescence and assessing the vessels against it.

Action: A draft obsolescence definition was to be produced for Board discussion with a view to submitting this to Transport Scotland.

RD

A Tait reported he, J Beckett and M Markie would be progressing the audit tenders. Given that the re-appointment of external auditors for 18/19 would need to be undertaken in Autumn after approval of the 17/18 Accounts, the external audit tender would be for the 19/20 audit onwards, with the internal audit tender to follow.

3.2 SAFETY COMMITTEE

J Stirling reported that the Safety Committee had discussed risk prioritisation, particularly those risks with a high impact that would outweigh the low likelihood. The Committee had also noted that obsolescence needed further discussion.

The Committee had discussed the Bull Hole risk in detail – in particular the reasonableness of costs vs. benefit of the long term solutions. J Stirling reported that he had visited Bull Hole and the staff had a greater awareness of safety issues, however they felt pressure from the local community to maintain sailings. It was, therefore, important to ensure that CalMac supported the staff. R Drummond advised that he had spoken to the Leader of Argyll & Bute Council about this matter and that a letter from CalMac to clarify the company's position including risks, estimated costs of rectification, deadlines for a long term solution and options available to CalMac (such as removal of the service) was being drafted.

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J Stirling reported that the Committee had reviewed the Health & Safety Audit report and he would be speaking PWC about their audit review.

3.3 REMUNERATION COMMITTEE

It was noted that there would be a Remuneration Committee later in the day.

3.4 [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

Disruption – the team had worked hard and customers had been very understanding. Although stakeholders had been broadly understanding, they had been unhappy and he was holding a series of meetings with them. The Clansman was back in service and planning for the remaining maintenance would take place with the agreement of Transport Scotland. [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

Vessels 801 & 802 – [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]

- The Summer 2019 timetable consultation was due to commence in the next few weeks. R Hadfield updated the Board on the information Transport Scotland had received on progress and he was advised of the risk to CalMac of further delays.
- **Emergency Response / Crisis Management Process** – this had been initiated during the disruptions and had worked well. It would be reviewed then updated as appropriate.
- **Community Board** – R Drummond had attended the Community Board and there had been a productive discussion. Disruptions information had been shared with the Community Board and there had been positive feedback although it was important that the Community Board remained engaged at a strategic level. The Board noted that the Community Board had released a press release which had received press coverage. The Board discussed holding a joint meeting with the Community Board members.

Action: S Hagan would suggest a joint DML Board and Community Board members meeting at the next Community Board.

SH

4.1.2 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.

RD

- **Employee Engagement** – a positive meeting had been held with a follow-up scheduled.
- **Near Miss Reporting** – this had risen to a ratio of 2.7: 1 showing positive safety culture improvements.

4.1.3 Key Issues Next Month

- **Business Plan** – planning was underway on the strategy for internal communications and cascading the Plan to staff.

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- **Rural Affairs Committee** – R Drummond may be called to attend this Committee at the end of May.
- **Exec Team Away Day** – an away day was planned for June.
- **Mallaig-Armadale Infrastructure meetings** – a third meeting was scheduled for May, following on from issues in 2016 and longer term strategy. Information would be submitted to this meeting from Transport Scotland.
Action: R Drummond would check on status of reference vessel information required by CMAL for their harbour planning.

RD

4.2 GROUP FINANCE UPDATE

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

4.2.1 DML Group Financial Results – March 2018

4.2.1.1 Group Profit & Loss

J Beckett reported that for draft full year results:-

- **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Results were still to be calculated per IFRS revenue recognition, although no major changes were anticipated. **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Key items were:
 - Farebox revenue was on Plan
 - Retail revenue was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to Plan
 - Vessel maintenance including recent Clansman repairs (some of which was recoverable under insurance) was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to Plan
 - Crewing (including crew training) was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to Plan and a revised crew training authorisation process was being put in place
- Payment of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** on account had been made to Transport Scotland with a balance of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** to pay.

J Beckett confirmed that the timing of grant payments was profiled throughout the year in order to smooth the seasonal impact of Farebox revenue and that this was consistent with the IFRS15 approach agreed last year and felt to produce a more accurate view of the performance of the business.

She reported that the fuel hedge was a new item in the Accounts and that with fuel prices going up the fuel hedge had produced savings of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** to date for Transport Scotland.

The Operating Profit reporting included:-

- CHFS2 adverse to Plan **[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**

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Interests and the Economy)] for the month and the Port Director recruitment was key to progressing new business development opportunities.

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 remained good at **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and the RBS Facility had not been required this winter. The requirements under this facility would be reviewed post Q1 18/19.
- Creditors of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** included maintenance costs.

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, port staff and vessel maintenance) – negative variance. This included an overspend on port staff due to increases from Contract Variations (CVs) whereby the cost was captured under port staff, the income under grant. J Beckett confirmed that the crewing levels base case CV had been approved.

4.2.2.2 Contract Variations & Funding Update

J Beckett reported that I Slorach was working with Transport Scotland's Contract Management Team to resolve the outstanding CVs and she updated the Board on the status of the CVs as follows:-

- CY1-018 – approved
- CY1-027 – outstanding
- CY1-032 – CMAL had received these costs for acceptance

4.2.2.3 **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

Action: R Drummond to establish whether the welding repair could have taken place in situ rather than at a yard.

RD

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-March 2018 Financial Performance**

- Operator Return before fuel was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with seagoing expenditure **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** positive to contract due to lower charter and crew costs.
- Operator return for 9 months was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with a Transport Scotland clawback of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Subsidy was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** including performance penalty deductions.

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

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4.2.3.2 Performance Penalty Deductions

This information was noted.

4.2.4 Solent Gateway JV Summary Contract Finance Performance Expenditure

- Operating Profit was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and confidence was high on the contractual validity of the dwell charges although there was less confidence about achieving payment from the MOD in time for the Accounts.
- From April 2018 onwards the key variances would be tracked against the 18/19 SGL Plan.

5. **STRATEGIC ITEMS**

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

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

S Hulme joined the meeting.

6. **DISCUSSION/DECISION TOPICS**

6.1 **IT NETWORK STRATEGY**

The Board noted the presentation from S Hulme and he outlined the background to the IT Network Strategy Proposal including the appointment of Horsebridge Network Systems (HNS) as network supplier from 2013-2021 (with a break option in 2019) and the subsequent contract re-negotiation to give CalMac ownership of the infrastructure assets after the contract had ended.

The challenges included that the network was sub-optimal, soft and hard exit plans were required (per the contract) as was full insight into the existing network provider costs. Furthermore there was no requirement in the contract for HNS to upgrade the network infrastructure (which would become obsolete before the end of the CHFS2 Contract and would not be able to make use of emergent technologies).

S Hulme outlined the options available to CalMac, noting that cost was not the main driver with the four options having broadly similar costs. He reported that option 3) the hybrid model was the recommended option. He emphasised that the network strategy project was not seeking to improve delivery and network reception of communications to vessels e.g. improve coverage beyond the normal range.

At this point R Hadfield left the meeting.

J Beckett confirmed that a financial analysis refresh of HNS was in progress and the Finance Team had requested their latest (June 2017) Accounts which had not yet been filed. The Board asked what mitigations were in place against an HNS failure and S Hulme reported that, following work on this, CalMac were now aware of the underlying service providers linking into the data centre and were confident that these relationships could be novated. The main issue would be access to the receivers and switches.

Action: S Hulme agreed to provide the emergency plan summary to the Board.

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S Hulme reported that a number of suppliers were being considered under the project and M Comerford suggested that suppliers of marine-specific solutions should also be considered. The possibility of Scottish Government support for provision of extended wi-fi coverage was noted and it was confirmed that infrastructure would be a CHFS2 contract asset.

The Board noted the milestone plan and the risks that were highlighted and discussed the proposal, noting that the timeframe was challenging. The Board **APPROVED** progressing the project as recommended.

7. **ADDITIONAL PAPERS - FOR NOTING**

7.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

7.2 **POLICY REVIEW UPDATE**

The Board noted the Policy Review paper and **APPROVED** the updated Policies per the Schedule.

8. **ANY OTHER BUSINESS**

8.1 **PR**

R Drummond reported that there had been a lot of coverage of the issue of the ageing fleet and the BBC and Stornoway Gazette had requested interviews with him to discuss VRDP and views on the future. The Board discussed these requests and it was agreed that this was potentially an opportunity to clarify the respective roles of CalMac, CMAL and Transport Scotland and that they were in favour of them.

8.2 **GOUROCK HEAD OFFICE**

A Tait suggested that consideration be given to highlighting Gourock's long-standing links to CalMac and DML.

8.3 **CMAL**

The Board discussed holding a joint Board meeting between themselves and the CMAL Board and noted that a joint meeting of CMAL and CalMac Executive Teams had already been agreed and R Drummond had been invited to attend the CMAL Board.

9. **DATE OF NEXT MEETING**

Wednesday 13 June 2018 at 9.00 a.m.

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Signed:
D C McGibbon
Chairman

Date: