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**DAVID MACBRAYNE LIMITED**  
**MINUTES of the BOARD MEETING**  
**held on Wednesday 29 August 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  
L De Wolff (LDW) – Director HSQE (part)  
R Hadfield – Assessor, Transport Scotland (part)  
S R Griffin (SRG) – Company Secretary

**Item** **Action**

1. **GOVERNANCE**

1.1 **SAFETY MOMENT**

L De Wolff tabled accident statistics including CalMac accidents 2017/18. There were 125 employee accidents of which 29% were trip, slips and falls (in line with the national average). The national workplace injury rate was 1860 per 100,000 and CalMac's was 133 – 7% of the national average of reportable accidents and 5% of the transport sector average. UK workplace fatalities was 144 which put the UK among the lowest in Europe (the Waste & Recycling sector had the highest rate of fatalities per 100,000 workers). He reported that CalMac were near the top of the transportation sector for the UK and the UK was near the top of the European table for lowest accident rates which meant that there was little scope for improvement, however CalMac management would keep trying to improve.

*At this point L De Wolff left the meeting.*

1.2 **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

1.3 **DECLARATIONS OF INTEREST**

M Comerford advised the Board that he had been appointed as a non-executive director of the Board of the Port of Tyne.

J Stirling advised that he had a connection with the MOD.

There were no other declarations of interest.

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#### 1.4 **MINUTES FROM BOARD MEETING OF 13 JUNE 2018**

The Minutes of the Board meeting held on 13 June 2018 were **APPROVED** and the Chairman was **AUTHORISED** to sign the minutes.

**Action:** Following finalisation of the changes to the May minutes, S R Griffin was asked to re-issue the May minutes.

**SRG**

#### 1.5 **ACTION LOG**

The action log was discussed as follows:-

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

##### **36.18 ANY OTHER BUSINESS**

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

##### **55.18 GROUP CEO UPDATE - Key Issues Last Month**

➤ **Community Board** – *The Board discussed holding a joint meeting with the Community Board members. S Hagan would suggest a joint DML Board and Community Board members meeting at the next Community Board.*

S Hagan reported that he would offer a joint DML/CalMac Community Board meeting to the Community Board members at their meeting later in the week.

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

**RD (JP)**

The Board agreed that they should have greater visibility and contact across the network.

**Action:** R Drummond agreed to arrange for a stakeholder map to be circulated to the Board.

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

**RH**

## 2. **BOARD COMMITTEES**

### 2.1 **AUDIT & RISK COMMITTEE (ARC)**

#### **Meetings held on 5 July & 15 August 2018**

The Board noted the ARC minutes from the meetings held on 5 July and 15 August 2018.

A Tait reported that on 5 July 2018 the Committee had discussed progress on the Annual Report & Accounts, received the External Auditor's report and noted the outstanding matters (including revenue recognition regarding SGL and Contract Variations). The External & Internal Audit tender timelines had been agreed and Internal Audit reports reviewed had been circulated to the Board and Remuneration Committee as appropriate.

A Tait reported that the meeting on 15 August had included a page turn of the final draft Accounts for DML and CFL and the Committee had recommended these Accounts to the Board for approval, subject to the SGL revenue recognition issues being resolved. It was anticipated that the Annual Reports & Accounts would be submitted to the October Board for approval and that an AGM should be arranged for the same day. J Beckett confirmed that a prudent view had been taken regarding revenue recognition from Contract Variations and any not approved had been removed from the 17/18 figures - with the External Auditors in

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agreement with this approach. J Beckett confirmed that the tonnage tax issue had been resolved and HMRC had nearly completed their review of offshore company & NI arrangements, with informal indications that there would be no change to existing practice.

**Action:** R Hadfield asked that the draft Accounts be circulated to Transport Scotland in good time for their review and J Beckett agreed to do so once the Accounts had been circulated to the Board for comment.

JB

### **Annual Audit & Risk Committee Report**

The Board noted this report which was a formal internal record of the work carried out during the year and included:-

- Membership during the year
- Internal Audit Reviews completed and their findings - for which the relevant senior management team members had attended to discuss the Review. The full Internal Audit workdays allocation had not been used during the year. The Internal Audit overall rating level 2 was good, although the Committee would like to get to level 1.
- Risk management – good progress had been made on risk management however there was scope for more to be done. The Internal Audit Review of Risk Management was currently being discussed by management before it was presented to the Committee. The Committee were confident that the right risks were being captured with Joint Venture SGL risks to be discussed. It was felt that the Board should receive risk reporting on a quarterly or six-monthly basis.

R Hadfield confirmed that there was no requirement for the DML Audit & Risk Committee to report to Transport Scotland's Audit Committee.

### **Performance Evaluation**

A Tait reported on the performance evaluation process undertaken by the Audit & Risk Committee which had been by group discussion of a questionnaire resulting in five recommendations:-

- The Committee had discussed whether the right risks were being captured and recommended that a quarterly risk report was reviewed at the Board.
- The Committee had also discussed financial reporting and recommended that the full financial report was reviewed on a quarterly basis by the Board – at least for the first six months of the year – with a summary plus any items for escalation going on a monthly basis – this would allow time for the Board to discuss other items.
- The Committee recommended that the Board discuss performing a performance self-assessment. The Board noted that this had been discussed as part of a follow-up to the training workshop held the day before and it was agreed that a session should be arranged before the end of October.
- The Committee reported that they had agreed to schedule meetings with the Internal Auditor (PWC) twice a year.
- The Committee reported that the recommendation that the Executive Team member responsible for the business area under review should attend the Committee when the relevant Internal Audit Reviews were presented had been implemented.

## **2.2 SAFETY COMMITTEE**

J Stirling reported that the Annual Safety and Annual Environmental reports had been circulated to the Board and that the updated Safety Committee Terms of Reference would

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be submitted to the next Board meeting for approval.

## 2.3 REMUNERATION COMMITTEE

S Hagan reported that there would be a Remuneration Committee meeting held later in the day and that the Committee would hold a performance self-evaluation at their meeting in September.

## 3. CHAIRMAN'S REMARKS

### 3.1 SCOTTISH CABINET MEETING – ARRAN

D McGibbon reported that the Cabinet had attended a public meeting and he and R Drummond had spoken to M Matheson, the Cabinet Secretary for Transport, Infrastructure and Connectivity. It was likely that P Wheelhouse, the Minister for Energy, Connectivity and the Islands would cover operational ferry matters while M Matheson would be responsible for strategic maritime aspects. It was noted that there was a meeting scheduled for D McGibbon, A Tait and R Drummond on 4 October, while the full Board would like to meet with M Matheson and P Wheelhouse before the end of the year and have clarity on the different roles of each minister. It was noted that the Minister would like to hear the CalMac strategic views.

**Action:** R Hadfield agreed to set up meetings for the full Board with the Ministers and provide clarification on the role of each Minister.

### 3.2 TRANSPORT SCOTLAND CHANGES

R Hadfield reported that J Nichols had left Transport Scotland and F Pacitti was now Director of Aviation, Maritime, Freight and Canals. In addition M Horn of the Contract Management Team would retire in September and additional resource would be brought in to strengthen the Contract Management Team. Of the direct reports to G Laidlaw, Deputy Director, Ferries Unit, M Horn's current Policy and Contracts role would be split after her retirement with R Hadfield moving into the Policy role and a new role of Finance, Infrastructure and Sponsorship being created. This meant that R Hadfield would be leaving his role as DML assessor.

### 3.3 CEO RECRUITMENT

D McGibbon reported that this was in progress with sifting taking place on 3 October.

### 3.4 BOARD COMMITTEE TRAINING

D McGibbon reported that a Board training session had been held the following day with a follow up session to be scheduled.

## 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 801 & 802** – there was increasing levels of press coverage and FMEL had held a public meeting in Arran and advised that 801 was due in Summer 2019 and 802 in Spring 2020.

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**Loch Seaforth disruption** – the category 2 process had been used formally for the first time and had worked well (with some lessons learned). Communications with stakeholders had been effective. M Comerford noted that the CalMac workforce were extremely committed and had worked hard out of commitment to the communities (not due to pressure from management). **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

- **Isle of Arran disruption** – the category 3 process had been used for this disruption. It was noted that this vessel was the one scheduled to have come out of the fleet by now and been replaced by 801 and it had required to have money spent on it over the last few years. Part of the issue was putting new parts into old vessels.

A Tait commented that the Board had had good visibility of the communication process, **[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)]**

- **Management Safety Committee** – R Drummond advised that a management safety committee was now meeting on a monthly basis.

#### 4.1.2 Key Achievements Last Month

- **Executive Team Away Day** – this had gone well with a bridge exercise and assessment.
- **Absence Rates** – good progress had been made with rates 2% better this year. Long term issues were being dealt with via line management and HR Policies were being applied.
- **IT Team** – the new Head of IT was performing well and new team members with good experience had now been recruited.
- **Modern Apprenticeships** – 23 places had been offered & accepted and CalMac was the leading provider of modern apprenticeships.

#### 4.1.3 Key Issues Next Month

- **SGL** – this was a Board agenda item.
- **Northlink Bid** – the Board would discuss this item separately.
- **Gourock-Dunoon** – the current contract had been difficult to manage in the early days, as had the Kerrera contract and it was important that any future contract process was robust with operational, not just legal, issues covered thoroughly.
- **Operations Control Centre** – new staff with experience had been brought into this team.
- **IIP** – this was being assessed next month with 200 staff to be interviewed.
- **Staff Recognition Award** – the first award had been made and had been well received.

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

- **Health Surveillance** – this was now being carried out.

D McGibbon reported that he had attended the recent ExCo and been impressed by the group contribution and level of debate.

**Action:** The Board agreed that they should be more visible out on the network and that Board meetings should be held out on the network with meetings to be organised with communities to make the most of the opportunity.

**RD/SRG**

**Action:** R Drummond agreed to circulate the Holyrood article.

**RD**

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## 4.2 GROUP FINANCE UPDATE

The Board noted the reports from J Beckett covering the period to end June and end July and she reported as follows:-

### 4.2.1 DML Group Financial Results – Q1 June 2018

#### 4.2.1.1 Group Profit & Loss

- Operating profit for Q1 was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**, positive to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Key variances were:
  - ATOS settlement instalment **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
  - CMAL costs recovery **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- For Q1 (excluding the impacts of the MV Clansman disruption):
  - Farebox revenue was in line with Plan (+1%)
  - Costs were in line with Plan

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

A Tait commented that the information provided was very good and very transparent. J Beckett confirmed that the Executive Team were aware of the risks to achievement of the Plan.

#### 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)]**. J Beckett reported that she would be looking at the cash facility requirement & options then presenting a paper to the Board. She confirmed that CY1 had not yet been closed out, however an initial payment had been made to Transport Scotland.

### 4.2.2 CHFS2 Contract Year 2 Performance

#### 4.2.2.1 Summary Contract Year 2 Financial Performance

Using a CalMac indicative estimate based on Contract Variations submitted, Operator Return pre Clawback was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**YTD. It was noted that management had a number of initiatives underway including optimised staff & crewing models and absence costs reduction. J Beckett confirmed that there was a well-defined cost control process in place and improvement was anticipated from the measures underway. She confirmed that a risk factor had been included in the Plan and was being utilised.

#### 4.2.2.2 Contract Variations & Funding Update

The outstanding Contract Variations (CVs) were noted and J Beckett reported that it was an improving picture with smaller CVs going through the approval process quicker:-

- CY2-002 – was still with Transport Scotland for approval
- CY2-006, CY2-013, CY2-017, CY2-018, – had all now been approved.
- CY019 – Argyll & Bute terminal dues increase. Any increase above CPI was covered under the Contract **[FOISA Status – Exemption under Section 33 (Commercial Interests and**

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**the Economy]]**

#### 4.2.2.3 Performance Penalties Deductions

A collaborative exercise with Transport Scotland during the recent MV Clansman disruption had resulted in an agreed process to reduce performance penalties.

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

##### 4.2.3.1 Summary Contract Extension Year 2: April-June 2018 Financial Performance

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

##### 4.2.3.2 Performance Penalty Deductions - AFL

This information was noted.

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

It was noted that comparisons were to bid baseline and that Operating Loss was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD (including accounting treatment of rent & rates) with commercial revenue the main negative impact. It was noted that there was an SGL update report later in the meeting.

#### 4.2.5 **Bid Commitments Update**

J Beckett reported that 69 bid and transition commitments were red and I Slorach was working closely with the business – and would be producing a paper for the Board. **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

#### 4.2.6 **DML Group Financial Results – July 2018**

The Board noted the July 18 Financial Results report and J Beckett reported that:-

- Subsidy was adverse to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD
- Vessel maintenance was adverse to **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** Crew training was being managed and was positive to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** for the month
- Port staff costs were adverse to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Support services were positive to Plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

It was noted that the July figures showed a distinct improvement and that Business Development underspend was largely due to the delay to the Gourock-Dunoon tender.

#### 4.3 **Q1 FORECAST UPDATE**

The Board noted the report from J Beckett and she reported that:-

##### 4.3.1 **Q1 Forecast Process**

The Executive Team had held an away day to review the Plan for any significant changes or factors outwith their control and Board approval was sought to re-base the Plan accordingly.

##### 4.3.2 **2018-19 Plan – Adjustments for Approval**



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#### 4.3.2.1 Adjustments for Approval

- Hebrides timing of overhauls: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Perth Harbour:- **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- ATOS: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Clansman incident: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- CVs in dispute: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- In-Service Maintenance costs for internal team: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Adjusted Business Plan Group Profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

R Drummond advised that the purpose was for management to report against a revised Plan to assist the Executive Team in managing the aspects of the Plan under their control.

#### 4.3.2.2 Group Profit 2018-19 Full Year Movement

This showed the Revised Plan V2 Group Profit individual items for adjustment giving a Q1F Group Profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

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

R Drummond confirmed that risk probability had been weighted and built into the Operator Return at the level it was expected to crystallise as 'evaluated risk'.

**Action:** J Beckett and R Drummond would review how much risk had been utilised to date.

**Action:** J Beckett would include comparators to the original Plan in reporting to the Board.

**JB/RD**  
**JB**

The Board **APPROVED** the Q1 Forecast Adjustments and Revised Plan.

#### 4.3.3 **Q1 Full Year Performance Highlights & KPIs**

##### 4.3.3.1 Full Year Profit/(Loss)

This was noted and the retail revenue opportunity was discussed.

##### 4.3.3.2 Full Year Vessel and Port Operations

This was noted.

##### 4.3.3.3 DML Group KPI Summary

- It was noted that 4/39 KPIs were red, 14 were amber and 21 were green. SRV1-5 'Contact Centre average call handling times' had been adversely impacted by the vessel disruptions. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]** It was noted that once ticket amendments could be carried out online calls to the Contact Centre would reduce.

#### 4.3.4 **2018-19 Risk & Opportunities Update**

J Beckett reported that where risks had crystallised they had been removed from the Plan.



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New risks identified included:

- Compass server upgrade
- CMAL berthing (rate increase)
- Unplanned maintenance
  
- The total risk sum had moved from **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** The opportunities sum had moved from **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- with the Group profit net of risks and opportunities moving from **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

The Board commented that the information provided was clear and demonstrated the amount of work done by management and they noted that it had been reviewed in detail by the Executive Team.

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

## 5. STRATEGIC ITEMS

### 5.1 **IN SERVICE MAINTENANCE PROJECT**

The report from J Philpott was noted and R Drummond reported that the spend for this project was within Plan and had been approved by ExCo but was being presented to the Board for information.

RD (KMcG)

The proposal was to bring certain of the annual overhaul work in-house to allow it to be performed while the vessels were in service and reduce the dependence on external contractors. The plan was to recruit seven staff to work across the fleet with savings realised from reduced spend in servicing costs, reduced disruption and increased resilience.

Recruitment for a Shore Services Manager was underway - and it was anticipated that these were desirable roles which would attract high quality candidates. M Comerford advised that there were additional benefits which could be considered including seeking approval for a Chief Engineer to be authorised to carry out surveys and widening the scope of the project to diesel generators. It was also noted that there was the potential for carrying out third party repair and servicing work at a future date.

The Board confirmed that they were in agreement with the rationale for this project.

### 5.2 **MARKETING STRATEGY**

The report from K McGregor and B Fulton was noted and it was felt that it should have a wider scope.

**Action:** R Drummond would ask K McGregor to produce a full strategy paper.

The Board also noted that an improved briefing should be given to Board members who would be attending the Royal National Mod this year.

JB

### 5.3 **DELEGATED AUTHORITIES SCHEDULE**

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The Board noted the paper from J Beckett who advised that the schedule and summary of changes had been reviewed by the Audit & Risk Committee and recommended for Board approval. She confirmed that the delegations applied to a role not an individual.

A Tait clarified that the column 'Delegated Budget Authority' referred to Purchase Order authority for items within the Business Plan.

**Action:** A process was to be put in place to ensure that individuals received a communication outlining their responsibilities under their delegated authority.

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

## 6. **ADDITIONAL PAPERS - FOR NOTING**

### 6.1 **ADDITIONAL PAPERS - DEPARTMENTAL REPORTS**

The Board noted the Executive Committee Reports.

R Drummond confirmed that if Ardrossan was out of commission sailings would go to Gourock. He advised that the Gourock linkspan was ageing but suitable for temporary use.

R Drummond confirmed that the supplier incentives in the IT Update referred to support needed from suppliers to assist with the business's needs for rostering with options being reviewed. The current system required more bespoke changes than anticipated and either these required enhancements could be obtained or an alternative supplier sought.

The Board discussed whether the Community & Stakeholder Engagement dinners attended were providing value and it was felt important that there was a clear benefit from them.

### 6.2 **POLICY REVIEW UPDATE**

There were no Policy Updates in the period.

*At this point R Hadfield left the meeting.*

## 7. **ANY OTHER BUSINESS**

### 7.1 **DML BOARD – DATA & EMAIL PROCESS**

The Board noted the Data & Email Process information circulated by email the day before. It was noted that some members had issues accessing Gangway and that Safety Committee papers would be more readable in a combined pdf document.

**Action:** S R Griffin was asked to look at options for improving the process for viewing Board and Committee packs.

**Action:** S R Griffin would arrange for Board members' personal emails to be removed from the CalMac system & distribution Groups and for assistance to be provided for individual Board members where required.

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7.2 **CHFS2 CONTRACTUAL ISSUES**

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

**SRG**

7.3 **SEPTEMBER BOARD MEETING**

The Board noted that R Drummond had been asked to attend the Rural Economy & Connectivity Committee on 26 September and agreed to move the Board meeting to Edinburgh.

**SRG/RD**

**Action:** S R Griffin to arrange for the September Board meeting to be held in Edinburgh to fit around R Drummond's REC Committee appearance.

7.4 **WASTE PRESENTATION**

**Action:** It was agreed that the Board should receive a presentation on the CalMac waste strategy and its implementation at a future Board meeting.

8. **DATE OF NEXT MEETING**

Wednesday 26 September 2018, time TBC, in Edinburgh.

Signed:  
**D C McGibbon**  
Chairman

Date: