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DAVID MACBRAYNE LIMITED

MINUTES of the BOARD MEETING

held on Tuesday 5 September 2017 at 09.00 am

at the Ferry Terminal, Gourrock, PA19 1QP

[FOISA Status – Exemptions under Section 30 (Prejudice to effective conduct of public affairs) Section 33 (Commercial interests) and Section 36 (Confidentiality)]

Present:

- D C McGibbon (DMcG) (Chairman)
- S M Browell (SB)
- M Comerford (MC)
- M Dorchester (MD)
- R L Drummond (RLD)
- S Hagan (SH)
- J Stirling (JS)

In attendance:

- G Laidlaw (Assessor) (Transport Scotland)
- J Beckett (JB) Interim Finance Director
- K Hobbs (KH) CEO, Caledonian Maritime Assets Ltd (part)
- C Paterson (CP) Board Administrator
- S R Griffin (SRG) Company Secretary

Apologies: A Tait (AT)

Item	Action
1. [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]	
2. <u>PRELIMINARIES</u>	
2.1 Safety Moment	
M Comerford commented that one consequence of the Houston hurricane and flooding was that a chemical plant was facing issues it had never considered when contingency planning. M Dorchester reported that although CalMac had held a business continuity workshop which had considered terrorist and other incidents they had not discussed major 'black swan' events.	
Action: It was agreed that the Safety Committee should consider unexpected 'black swan' events.	JS
2.2 Apologies For Absence	
Apologies for absence had been received from A Tait, Director.	
2.3 Declarations of interest	

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There were no further declarations of interest on the part of Directors, other than those previously made.

3. **MINUTES AND ACTION LOG**

3.1 **Minutes from Board Meeting of 9 August 2017**

The Minutes of the Board meeting held on 9 August 2017 were **APPROVED**, subject to an amendment to reflect that K Chamberlain should be asked to give her Environmental Presentation to the Board, and the Chairman was **AUTHORISED** to sign them.

3.2 **Action Log**

The action log was discussed as follows:-

- | | |
|--|-------------------|
| 12.17 Politicians' Ferry Knowledge - Consider ways to improve this. Ask GM/BF to create possible quarterly CalMac newsletter. M Dorchester advised that he would check on progress. | MD |
| 25.17 Meeting with Minister - 1. Prepare 5-10 year plans for Minister and 2. Consider agenda for such meeting. C/Fwd. | DMcG |
| 28.17 Group Profit 2017-18 - Consider how to present possible full year outturn. J Beckett reported that she would be meeting with KPMG shortly and she, M Dorchester and A Tait would discuss this matter and report to 5 October Board. | JB |
| 29.17 Marchwood safety and Safety Cttee (SC) - Recommend monitoring proposals to Safety Committee. C/Fwd. | RD/LdW |
| 30.17 Lochmaddy Piers – M Dorchester confirmed he had reported the issue to the Harbour Authority. | |
| 35.17 TV Programme – M Dorchester advised that he would present a high level paper on this matter to the 5 October Board. | MD |
| 36.17 Group CEO Update Pension Fund – M Dorchester to respond to Aon Hewitt. D McGibbon, M Dorchester and R Drummond would meet to draft comments in response to the note from R Hadfield. It was noted that the next triennial valuation would be in April 2018. | DMcG/MD/RD |
| 42.17 Safety Committee Minutes – Hebrides - To respond to R Hadfield on pitch control system upgrade cost. M Dorchester and C Paterson to discuss the detail of the action required. | MD/CP |
| Action: D McGibbon and S R Griffin would discuss the action list format. | DMcG/SRG |

All other actions were complete or would be covered under Agenda items.

4. **CHAIRMAN'S REMARKS**

4.1 **Company Secretary**

D McGibbon welcomed S R Griffin, the new Company Secretary, to her first Board meeting.

4.2 **Community Board**

M Dorchester, S Hagan and Brian Fulton had conducted interviews and appointed the chair of the new Community Board and M Dorchester reported that all the candidates

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had been positive about CalMac's progress in community relations. Work was currently underway to select 12 Board members from a list of 20 candidates.

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

4.4 **Royal National Mod - 13-21 October 2017**

D McGibbon advised that it was important that the Board were represented at the forthcoming Royal National Mod, Lochaber (Fort William) and all Directors were invited to attend.

5. **GROUP REPORTS**

5.1 **Group CEO Update**

The Board noted the report from M Dorchester and he reported as follows:-

5.1.1 ***Key Issues Last Month***

- **CHFS 1 & 2** – variation payments were ongoing and would need to be finalised to allow re-basing of Year 2 based on Year 1 changes.

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- **Carvorra (Kerrera)** – this vessel had now been deployed.
- **BaRTs** – this was on track.

[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)]

5.1.2 ***Key Achievements Last Month***

- **Values & Goal** – these had been launched.
Action: C Paterson would provide Non-Executive Directors with red lanyards.
- **ISO Upgrade** – the visit had been successful.
- **Shortlisted for 2 awards at National Transport Awards** – CalMac had been shortlisted for 'Best Ferry Operator' and 'Apprentice Champion of the Year'.
- **SCDI award** – this award was noted.
- **Network/Company performance** – performance had been good: passenger numbers had been high while complaints were low.

CP

5.1.3 ***Key Issues Next Month***

- **Ports Operational Design** – this activity stemmed from bid commitments and followed on from the contracts with Transport Scotland and CMAL. There had been some feedback from out on the network regarding the Ports Operational Design and although it would not be easy to implement, planning was in hand with roll out starting at the end of September.

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- **Corporate Plan Preparation** – this would be covered under Group Finance Report.
- **Marchwood** – M Dorchester and A Tait had visited the site. The work required included contract management, improved reporting structures and drawing up a business plan. The interview process for the Port Director was in progress with contract management being a key part of the role, and a suitable consultant had been identified.

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Action: M Dorchester would communicate to the Board the details of the consultant under consideration.

MD

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

Attendance at events – the Interferry Conference in Croatia: **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

- Other events included the Scottish Transport Conference which M Dorchester was chairing, BOWFEST and the Royal National Mod.
- **Timetables** - this would be discussed later in the meeting.
- **Appointment of Community Board** – as noted earlier, this was ongoing and M Dorchester thanked S Hagan for his time and assistance. He reported that there had been positive feedback about setting up the Community Board.

5.2 **Group Finance Update**

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

5.2.1 **DML Group Financial Results – July 2017**

5.2.1.1 Group Profit & Loss

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

- Bid penalties under CalMac Ferries Ltd's contract were captured under the CFL CHFS entry.

J Beckett reported that risk and opportunities would be added as a formal part of the report, and would include Farebox and SGL risks and opportunities.

5.2.1.2 Group balance sheet

Group cash balance was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** and there had been no drawdown under the **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** RBS facility. Although the cash balance would reduce over winter, Finance would seek to reduce the size of the drawdown facility and monitor requirements over winter.

JB

Action: J Beckett was asked to establish the costs of delaying reducing the **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** RBS facility.

5.2.2 **CHFS2 Contract Year 1 Performance**

5.2.2.1 Summary Contract Financial Performance, 10 months

[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]. R L Drummond reported that due to Road Equivalent Tariffs (RET)

timetables were stretched – attracting penalties – and this issue needed to be reviewed.

- It was noted that high season passenger numbers had always been at capacity but now the shoulder periods were increasing and the busy operating periods extending.

Seagoing expenditure was **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** adverse to plan and included adverse fuel costs of **[FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)]** which had been partially offset by reduced fuel consumption. Vessel Masters had visibility of company KPIs and positive fuel

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consumption against target was anticipated to continue.

Port costs were [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

Administration costs were [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

Farebox revenue was [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

Retail revenue performance was [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

➤ Other revenue performance was [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

R L Drummond reported that vessel breakdowns caused both costs of repair and penalties regarding timetable delays and that there would need to be discussions with CMAL about obsolescence. It was noted that these risks would be captured under the CalMac asset management strategy work.

5.2.2.2 Contract Variations & Funding Update

A quick turnaround on contract variations was needed to allow for re-basing and re-modelling for Contract Year 2.

5.2.2.3 Performance Penalties

This would be reported to the next Board meeting.

5.2.2.4 Bid Commitments Update

The summary of the status of bid commitments was noted with work underway to establish the final Year 1 position. Re-phasing of the transition bid commitments was ongoing and a detailed session reviewing the bid commitments due by end September had been held with no items of concern noted.

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

➤ Seagoing Expenditure – [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] positive to plan.

➤ Revenue was on track.

➤ Subsidy – adverse [**FOISA Status - Exemption under Section 33 (Commercial Interests and the Economy)**] to plan due to performance deductions as a result of vessel issues.

Action: The increased risk of performance deductions from further contract extensions was to be added to the Risk Register.

JB

5.2.4 ***CFL Business Development Activity***

There were a number of business development activities being scoped and the new Business Development Director would be starting in October.

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

6. DISCUSSION TOPICS

6.1 **Vessel Update/Timetables**

[**FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)**]. It was noted that it would be important to manage community expectations e.g. when timetable changes might be implemented. Other impacts

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included potential costs from existing fleet failures until new vessels were delivered. It was agreed that timely notice of delivery was required in order to action operational changes (e.g. timetable and booking system capacity updates) and that it was important to plan realistically.

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RLD

The Board noted the need for discussion regarding future vessel requirements and it was felt that resilience should be built into the fleet. G Laidlaw confirmed that a vessel deployment plan was being drawn up.

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6.2 **Solent Gateway Ltd (SGL)**

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

MD

7. **ITEMS FOR NOTING**

7.1 **Group Audit & Risk Committee Meeting of 28 July 2017 – Draft Minutes & Action Log**

The Board noted the draft minutes and action log of the Audit & Risk Committee held on 28 July 2017.

7.2 **Additional Papers - Departmental Reports**

The Board noted the Executive Committee Reports.

8. **ANY OTHER BUSINESS**

8.1 **Board Meeting Schedule for 2018**

Action: S R Griffin was asked to produce a draft list of Board & Committee meeting dates for 2018. It was suggested that consideration be given to holding Board and Board Committees meetings on the same day. In addition two Remuneration Committee meetings should be scheduled during 2018.

SRG

8.2 **Wemyss Bay Incidents**

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

8.3 **Visit from Tom Elder, MCA**

M Comerford reported that a meeting with Tom Elder of the MCA and Safety & Marine had been set up for later in the week.

8.4 **Audit of Ferry Performance**

G Laidlaw reported that the draft report from Audit Scotland of Transport Scotland's ferry performance was in progress and due to be published in mid October and would be submitted to the appropriate Scottish Parliamentary Committees.

Action: He agreed to share any press releases with CalMac, given that this report's

GL

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release may generate press interest.

8.5 Network Visits

M Dorchester asked that when Non-Executive Directors conduct network visits they make an effort to speak to crew and office staff, as well as the Masters and politicians, to draw out any systemic issues and experiences.

Action: NEDs to liaise with Andrina McCrae regarding network visits and M Dorchester to provide questions for them to ask during network visits.

NEDs/MD

The Board meeting was adjourned at 12.45pm and re-commenced at 1.30pm, following the Calmac Ferries Limited Board meeting.

8.6 Policy Review

D McGibbon reported that, following the briefing by J Nicholls of Transport Scotland to the August Board, he had drafted a response from the Board which had been circulated to the Board and then updated per comments received.

The Board reviewed the final version draft and, subject to a further change to remove the final sentence, **APPROVED** the letter for sending to J Nichol and **AUTHORISED** the Chairman to sign it on their behalf.

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

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

9. DATE OF NEXT MEETING

Thursday 5 October 2017 at 9.00 a.m.

Signed:
D C McGibbon
Chairman

Date: 2017