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**DAVID MACBRAYNE LIMITED**

**MINUTES of the BOARD MEETING**

**held on Thursday 5 October 2017 at 09.30 a.m.**

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)
- A Tait (AT)

**In attendance:**

- R Hadfield (RH) – Assessor, Transport Scotland
- J Beckett (JB) – Interim Finance Director
- S R Griffin (SRG) – Company Secretary
- M Anderson (MA) – Director, Ayrshire & Arran Health Board
- B Wood (BW) – Programme Manager, HSQE Dept (part)

**Apologies:**

<b>Item</b>	<b>Action</b>
1. <b><u>WELCOME</u></b>	
D McGibbon welcomed M Anderson, Non Executive Director of the Ayrshire & Arran Health Board, who was attending the Board meeting as an observer under the Scottish Government non executive director mentoring programme.	
2. <b><u>GOVERNANCE</u></b>	
2.1 <b>Safety Moment</b>	
J Stirling noted that, while travelling on a passenger ship in the US, he had observed the skipper referring to safety announcements as the 'boring bits' and consequently little attention had been paid by passengers. This contrasted with his experience on a small aircraft where safety had been taken extremely seriously by the flight attendant.	
<i>At this point B Wood joined the meeting.</i>	
B Wood reported that a new passenger safety video and audio had been produced as part of a programme of continual improvement and it would be available as linked	

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audio and visual on the vessels that had this facility and as audio only on the remainder, with safety cards on board to supplement the message. He reported that the video, representing island life, was designed to be an innovative fusion of the safety message and CalMac brand, aimed at engaging passengers with safety. The next steps were to produce a Gaelic version and to launch the video over various social media platforms, including the CalMac website, with consideration being given to showing it in schools. It would also be shown to the Marine & Coastguard Agency. It was suggested that the team may wish to consider producing safety activity sheets on board for children.

The Board watched the video and were very positive about the approach taken. It was noted that a possible criticism may be that it was distracting compared to a standard safety message and it might be useful to have evidence that the approach of the video – with visual links to key safety points – acted as an aid to retention of safety information. B Wood advised that the team would be seeking to measure the effectiveness of the video e.g. tracking of incident trends following the launch.

**Action:** B Wood was asked to show the video at the Safety Committee meeting on 18 October.

**BW/LdW**

## 2.2 Apologies For Absence

There were no apologies for absence.

## 2.3 Declarations of Interest

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 5 September 2017

The Minutes of the Board meeting held on 5 September 2017 were **APPROVED**, subject to amendments to **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**, 2.1 to remove reference to a tsunami, 5.2.2.1 to change 'Seagoing vessel maintenance' to 'Seagoing expenditure', **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]** and 8.4 'Procurement' changed to 'Performance' and a reference to Audit Scotland added for clarity. Subject to these minor amendments being made the Chairman was **AUTHORISED** to sign the minutes.

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

**RLD**

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

### 3.2 Action Log

The action log was discussed as follows:-

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

**MD**

25.17 Meeting with Minister - 1. Prepare 5-10 year plans for Minister and 2. Consider

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agenda for such meeting. C/Fwd.

**DMcG**

29.17 **Marchwood safety and Safety Cttee (SC)** - Recommend monitoring proposals to Safety Committee. J Stirling advised that he would verify that this item had been added to the October Safety Committee Agenda.

**JS/LdW**

42.17 **Safety Committee Minutes – Hebrides** - To respond to R Hadfield on pitch control system upgrade cost. J Stirling confirmed that this item was on the Agenda for the October Safety Committee.

52.17 **Audit of Ferry Performance** - GL agreed to share any press releases with CalMac, given that the release of the report from Audit Scotland of Transport Scotland's ferry performance may generate press interest. C/fwd.

**GL**

53.17 **Network Visits** - NEDs to liaise with Andrina McCrae regarding network visits and MD to provide questions for them to ask crew and staff during network visits. C/fwd.

**NEDs/MD**

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

**CR/MD**

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

4. **CHAIRMAN'S REMARKS**

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

4.2 **Vessels 801 & 802**

D McGibbon reported that, further to the update by K Hobbs, CEO of Caledonian Maritime Assets Ltd (CMAL) to the 5 September Board meeting, the launch date for vessel 801 had been confirmed as 21 November 2017.

4.3 **Community Board**

D McGibbon reported that the Community Board appointments had been made and Angus Campbell, the Chair of the Community Board, would be coming to meet the DML Directors following the Board meeting.

S Hagan updated the Board on the Community Board interview and appointment process, noting that the quality of the candidates and appointees was high and that the Chair had a great deal of experience. The high level remit of the Community Board had been understood and it was felt important that there was a link between the DML Board and the Community Board e.g. DML Directors may wish to attend a Community Board dinner. The first Community Board meeting had been scheduled for 17 November 2017 and it was agreed that the Community Board should be given sufficient support and budget to enable it to function properly.

**Action:** B Fulton would be asked to prepare a paper with proposals for budget and support for the Community Board to the end October DML Board.

**MD (BF)**

It was noted that the Chair of the Community Board would attend the DML Board to present output and recommendations from the bi-annual Community Board meetings.

**Action:** R Hadfield asked to be sent the Terms of Reference for the Community Board.

**MD (BF)**

4.4 **Forthcoming Events**

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D McGibbon reported that Interferry in Croatia would be attended by himself, M Dorchester, B Fulton and C Roberts.

The Royal National Mod would be in Lochaber (Fort William) on 13-21 October 2017.

**Action:** M Dorchester would arrange for briefing information to be provided to the non executive directors.

**MD**

5. **BOARD COMMITTEES AND SUBSIDIARIES**

5.1 **CalMac Ferries Limited (CFL) – Minutes of 5 September 2017**

The Board noted the minutes of the CFL Board meeting held on 5 September 2017.-

6. **GROUP REPORTS**

6.1 **Group CEO Update**

The Board noted the report, which had been produced by R L Drummond, and he reported as follows:-

6.1.1 **Key Issues Last Month**

- **CHFS 1 & 2 Variation Payments** – management were seeking to finalise Contract Variation payments for Year 1.

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- **Carvorra (Kerrera)** – this vessel had failed in trials and now failed in service and had occupied a large amount of management time. The community was also expecting an enhanced level of service to the one previously provided and there were lessons to be learned about discussions prior to a new service being introduced.

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6.1.2 **Key Achievements Last Month**

- **Summer 2018 Timetables** – these had received Ministerial approval and for the first time in recent years had been produced to contract publication deadline. Service improvements had been communicated to communities. R L Drummond was asked to consider producing a press release about the service improvements.
- **CY1 Performance** – there had been strong operational performance with reliability and punctuality both higher than previous years, negative feedback from communities had reduced significantly due to both better performance and better relationship management. Not only had there been no major incidents, there had been better management of the minor incidents across the network with an improved framework in place. The Board felt management could consider whether improved performance provided an opportunity for positive PR.
- **Near Miss Rolling Ratio** – ratio of near miss to accidents exceeded 1.0 for the first time in August (being nearly 2:1 with a long term goal of 10:1) with a great deal of work having been carried out to improve trust and transparency.
- **Service Delivery On Board days** – the first cycle of these had been completed and they were delivering closer engagement at all levels on the vessel.
- **Modern Apprentices** – 20 modern apprentice places had been offered making CalMac one of the biggest marine trainers of modern apprentices.

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- **Ports Operational Design** – this was in progress.
- **Crewing Operational Design** – this was under discussion and would be impacted by the new vessels 801 & 802.

The Board discussed the improvement in sickness absence across the network, in particular for Argyll Ferries, which was an indicator of improved staff morale. The Board noted other activities being carried out to improve sickness absence rates such as improved back-to-work processes, improved sleeping conditions and mental wellbeing procedures. M Dorchester advised that aspects of the business had suffered during the CHFS2 bid process, including Argyll Ferries operations.

RLD/JB

### 6.1.3 Key Issues Next Month

- **BaRTS** – the BaRTS business case would now go to the next TS Investment Board.
  - **Corporate Plan Preparation** – this would commence in October.
- [FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
- **Brodick Terminal** – CMAL had scheduled formal opening on 23 October and there was a risk that the terminal would not be operationally ready for that date; a Go/No-Go decision was being taken by CMAL shortly. CalMac would need the port by 17 October in order to be operationally ready by 23 October and all safety & completion certificates would need to be in place.

## 6.2 Group Finance Update

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

### 6.2.1 DML Group Financial Results – August 2017

#### 6.2.1.1 Group Profit & Loss

- Operating profit of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** YTD was adverse to Plan by **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** with adverse impacts from:
  - Farebox **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD
  - Vessel Operations **[FOISA Status – Exemption Section 33 )Commercial Interests and the Economy)]** YTD including fuel costs **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD, vessel maintenance YTD and other costs **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD
  - Support Services **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD – including unplanned legal spend regarding ATOS
- Grant income was positive **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD to plan.

JB

**Action:** J Beckett was asked to add a forecast column to the Profit & Loss table and to separate adverse from positive impacts to aid readability.

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#### 6.2.1.2 Group Balance Sheet

- Group net asset position was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**, adverse to plan **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Cash balance was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** as a result of the summer season fares income. J Beckett advised that the RBS **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** facility had annual fees of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** and a cash flow forecast would be produced as part of the reforecast to assess the size of the facility required. She reported that grant recognition was not even throughout the year - to compensate for lower winter season revenue.

JB

J Beckett confirmed that the timing of grant payments was not an issue, the problem was the clarification of the CY2 grant payment amounts which could not be clarified until the outstanding Contract Variations (including RET routes) were approved by Transport Scotland and subsequent re-basing work completed. The Board noted that the CHFS2 Contract assumed that contract variations would be signed off in good time.  
**Action:** J Beckett was asked to include a view of the likely achievement of the Plan in next month's report.

It was noted that a dividend recommendation would form part of the review of the financial year accounts.

#### 6.2.2 **CHFS2 Contract Year 1 Performance**

##### 6.2.2.1 Summary Contract Financial Performance, 11 months

- Operating return pre-clawback was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** positive to Contract) comprising the following key variances:
  - Farebox revenue was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** positive to plan.
  - Port costs were **[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.
  - Fuel volumes were **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** positive to plan.
  - Subsidy was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** adverse to plan.

JB

The Board discussed the contrast between DML financial performance and CHFS2 Contract financial performance and noted that the Group Plan and CHFS2 Contract were not identical and items such as the adverse impact on revenues of RET pricing were captured in the DML Plan but not the CHFS2 Contract.

**Action:** J Beckett was asked to consider how best to provide greater clarity in reporting to the Board to facilitate understanding of these differences.

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

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#### 6.2.2.3 Performance Penalties

The Board noted the total cost of performance penalties of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** YTD and the detail of the significant incidents. M Dorchester confirmed that the asset management team were receiving this information to factor into their planning and the obsolescence analysis work being undertaken. The Board noted that in the event that agreement to upgrade assets could not be obtained, any subsequent failures would be a cost to CalMac both for repairs and any performance penalties incurred.

#### 6.2.2.4 Bid Commitments Update

The summary of the status of bid commitments was noted with 90% of Business Plan Commitments and 72% of Transition Commitments delivered or on track to be delivered. Many of the red status Commitments had a due date of 1 October 2016 i.e. the start of the Contract. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**

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

- Operator Return before fuel was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** (positive **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** YTD)
- Seagoing Expenditure was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** positive YTD.
- Subsidy was adverse **[FOISA Status – Exemption under Section 33 (Commercial Interests and the economy)]** to plan due to performance deductions as a result of Ali Cat vessel issues in July.

J Beckett confirmed that the costs of additional security had been included in the contract extension.

#### 6.2.4 **CFL Business Development Activity**

The Board noted that business development work carried out to date included Argyll Ferries contract bid, Teckal review and other ferry contract opportunities and that the Business Development Director, who was starting in November, would have a team of two.

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

#### 6.2.6 **2016-17 Annual Report & Accounts**

J Beckett reported that revenue recognition under IFRS15 had been discussed with the External Auditor, KPMG, and there were a number of options under this accounting standard:-

Option 1 – similar approach to the current method employed

Option 2 – cost plus basis: this would have a significant negative impact on the accounts in the first year as the first CHFS2 Contract income in the accounts would be from the winter period.

Option 3 – recognition of 8 year grant income would be spread evenly throughout the contract.

A report outlining the recommended approach for DML Group would be presented to the Audit & Risk Committee meeting in October and thereafter to the 31 October

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Board meeting. J Beckett confirmed that, aside from the IFRS15 revenue recognition approach, the Annual Report & Accounts were ready for review and approval. **SRG/JB**  
**Action:** the AGM was to be arranged for after the 31 October Board meeting.

7. **DISCUSSION TOPICS**

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

7.2 **TV Programme**

M Dorchester tabled a paper for Board review. **SRG**  
**Action:** This was to be added to the 31 October Board Agenda for discussion.

7.3 **Board Meeting Dates 2018**

The Board noted the draft meeting dates for 2018 and that the first Wednesday in the month for DML Boards was not suitable for A Tait and other Directors had diary clashes with individual meetings. **SRG**  
**Action:** S R Griffin to liaise with Directors, amend and re-submit dates for Board approval.

8. **ADDITIONAL PAPERS - FOR NOTING**

8.1 **Additional Papers - Departmental Reports**

The Board noted the Executive Committee Reports.

M Dorchester confirmed that the asset management team resource issue had been resolved and that management would be working on procurement relationships - translating technical supply chain expertise into the procurement side.

**Action:** It was felt that the Table of Fleet Reliability should be presented either in 'cost' or 'hours lost' order and it should also show the impact of contract penalties. The Board asked that this information be provided within the main Board papers. **MD**

**Action:** J Stirling asked that the executive consider providing a brief update to these reports for the Board. **MD/RLD/JB**

9. **ANY OTHER BUSINESS**

9.1 **MV Pentalina**

R L Drummond confirmed that a note would be prepared for Transport Scotland to confirm the usability of this vessel within the CalMac network.

9.2 **West Highland Steamer Club**

J Stirling advised that he had been invited to attend a Club meeting to represent CalMac.

9.3 **Audit & Risk Committee (ARC)**

A Tait reported that a paper would be presented to the 31 October Board on the work carried out by the ARC.



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**Action:** The ARC report on work carried out to be added to the 31 October Board Agenda. **SRG**

9.4 **Corporate Social Responsibility (CSR)**

The Board noted the creation of the fund.

**Action:** Proposals for events were to come to the Board e.g. the future level of support for the Royal National Mod. **MD**

9.5 **Transport Scotland Update**

R Hadfield reported that a Scottish Transport Appraisal Guidance (STAG) appraisal of the Western Isles ferry services would be starting shortly.

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

9.7 **Chamber of Shipping Summit – 4 October 2017**

M Dorchester reported that both he and David Cannon had spoken at this event.

9.8 **Electrification**

M Dorchester reported that he would be speaking at Interferry on the benefits of electrification.

10. **DATE OF NEXT MEETING**

Tuesday 31 October 2017 at 9.00 a.m.

Signed:  
**D C McGibbon**  
Chairman

Date: 2017