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DAVID MACBRAYNE LIMITED

MINUTES of the BOARD MEETING

held on Tuesday 31 October 2017 at 09.00 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)

In attendance:
R Hadfield (RH) – Assessor, Transport Scotland
J Beckett (JB) – Interim Finance Director
S R Griffin (SRG) – Company Secretary
B Fulton (BF) – Director of Community & Stakeholder Engagement (part)
D Cannon (DC) – Head of Stakeholder Communications (part)
A Hunter (AH) – Head of Learning & Development (part)
C Roberts (CR) – HR Director (part)
K Chamberlain (KC) – Environmental Manager (part)

Apologies: A Tait (AT)

Item **Action**

1. **GOVERNANCE**

1.1 **Safety Moment**

M Comerford commented that there was a spike in road traffic accidents after the clocks change. M Dorchester reported that, when he managed a restaurant, after the clocks changed the restaurant was late opening and, in the haste to open for the waiting customers, the kitchen equipment had been turned up too high too quickly - the impact of the resulting fire was compounded by poor responses.

J Stirling reported that L de Wolff had provided the Safety Committee with copies of the Marine Accident Investigations Branch (MAIB) Safety Digest which he recommended to the Board for its demonstration of how many accidents start from small beginnings and can end with a serious impact.

1.2 **Apologies For Absence**

Apologies for absence had been received from A Tait.

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1.3 **Declarations of Interest**

There were no new declarations of interest on the part of Directors.

2. **MINUTES AND ACTION LOG**

2.1 **Minutes from Board Meeting of 5 October 2017**

The Minutes of the Board meeting held on 5 October 2017 were **APPROVED**, subject to amendments to 9.2 to note that it was the 'Western Highland' Steamer Club and 9.5 to clarify that the STAG appraisal of the Western Isles ferry services would be starting, and the Chairman was **AUTHORISED** to sign the minutes.

2.2 **Action Log**

The action log was discussed as follows:-

- 6.16 **Business development** – Arrange strategy awayday for Board (to include RH). **MD**
When feedback on ferry review received, M Dorchester would revert to Board. C/fwd.
- 25.17 **Meeting with Minister** – 1. Prepare 5-10 year plans for Minister and 2. Consider agenda for such meeting. C/Fwd. **DMcG**
- 29.17 **Marchwood safety and Safety Cttee (SC)** – Recommend monitoring proposals to Safety Committee. J Stirling reported that this had been discussed at the Safety Committee and SGL would be asked to advise the Safety Committee of the approach they are taking to allow the Safety Committee to monitor this.
- 42.17 **Safety Committee Minutes – Hebrides** - To respond to R Hadfield on pitch control system upgrade cost. J Stirling reported that the Safety Committee had discussed this and noted that all vessels would be upgraded except for one, for which the preventative process would be strengthened. It was felt that the risk had been reduced as low as reasonably possible (ALARP) and L de Wolff had been asked to confirm this by testing against the HSE definition and reporting back to the Safety Committee. J Stirling reported that the Safety Committee had also asked that the Bull Hole risk was put through an ALARP process and reported back to them.
- 54.17 **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**
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)].
- 62.17 **Community Board** – R Hadfield asked to be sent the ToRs for the Community Board. M Dorchester would ask B Fulton to provide the ToRs. **MD (BF)**
[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)].
- 66.17 **DML Group Financial Results – August 2017** – Group Balance Sheet
J Beckett was asked to include a view of the likely achievement of the Plan in next month's report. C/fwd.
- 72.17 **Additional Papers - Departmental Reports** – 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. C/fwd - this was ongoing.
- 73.17 **Additional Papers - Departmental Reports** – J Stirling asked that the executive consider providing a brief update to these reports for the Board. A review of ExCo timetable would be undertaken once Board dates has been finalised – c/fwd.
- 75.17 **Corporate Social Responsibility (CSR)** – Proposals for events were to come to

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the Board e.g. the future level of support for the Royal National Mod. C/fwd.

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

3. **CHAIRMAN'S REMARKS**

3.1 **Royal National MOD**

D McGibbon reported that the MOD had gone well and M Dorchester reported that there had been positive feedback about Board attendance and it had been a good opportunity to meet stakeholders in an informal setting.

The Board noted the importance of CalMac's sponsorship to the MOD and discussed future intentions.

Action: M Dorchester would ask B Fulton and D Cannon to prepare proposals on sponsorship strategy including MOD sponsorship.

MD (BF/DC)

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

3.3 **Tripartite Meeting**

D McGibbon reported that he would be attending a Tripartite meeting with John Nicholls, Graham Laidlaw and Eric Ostergaard. R Hadfield confirmed that the 21 November launch date for vessel 801 remained unchanged.

3.4 **Board Strategy Day**

It was noted that the next Board strategy day was 6 December, with the November date having been cancelled.

Action: D McGibbon would investigate the process for scheduling and cancelling these sessions as not all Board members had received notice of cancellation of November's date.

DMcG

4. **BOARD COMMITTEES AND SUBSIDIARIES**

4.1 **AUDIT & RISK COMMITTEE**

4.1.1 **Audit & Risk Committee Meeting – 25 October 2017**

D McGibbon reported that he had chaired the Audit & Risk Committee in A Tait's absence and the Committee had received the External Audit report from KPMG who had advised they anticipated issuing an unqualified audit opinion for the Annual Report & Accounts.

The Board noted the briefing paper tabled by J Beckett that related to the implementation of IFRS15. She reported that Option 1 – Cost less Revenue was the approach being implemented and that KPMG, the External Auditor, were in agreement with this. This approach spread the Operator Return over the period of the Contract

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and had the least impact on the accounts compared to the previous basis. J Beckett reported that quarterly reviews would be undertaken by Finance to compare management accounts reporting to IFRS reporting. It was noted that under IFRS15 more narrative reporting was required in the Notes to the Accounts.

Action: The Directors were asked to provide all comments on the Accounts to the Finance team by Friday 3 November in order that the Accounts could be finalised and signed by mid-November and then presented to the Scottish Parliament.

All

The Board noted that the recent publication of Audit Scotland's review of Transport Scotland's Ferry Services may mean that this year's Annual Report & Accounts receive more attention and M Dorchester confirmed that Q&As would be produced for the Board as usual.

4.1.2 **Audit & Risk Committee Annual Board Report 2016/17**

The Board noted the Annual Report to the Board from the Audit & Risk Committee.

Action: It was noted that the reference to Scott Moncrieff should be amended to refer to KPMG.

SRG (PS)

4.2 **SAFETY COMMITTEE – MEETING OF 18 OCTOBER 2017**

J Stirling reported that a very constructive meeting had been held with good quality reporting. It had been agreed that further work would be done to benchmark those risks considered 'ALARP' (as low as reasonably possible) against the official definition. The Safety Committee would be producing an annual report to the Board. He reported that the 'black swan' events item was still to be discussed.

M Comerford commented that the safety culture within the organisation was developing well and M Dorchester confirmed that engagement with the Safety team was very good and the investigation of incidents had improved.

4.3 **REMUNERATION COMMITTEE**

4.3.1 **Remuneration Committee Meeting – 5 October 2017**

S Hagan reported that the Remuneration Committee had approved recruitment of an IT Director and this process was underway. The Committee had also confirmed that engagement of contractors costing ≥£400 per day should come to Remuneration Committee meetings for approval and that senior managers may be asked to attend to present the business case.

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

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**

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MD

of Public Affairs)].

- **Audit Scotland report on Transport Scotland's Ferry Services** – this report and the supplementary report had now been published.

5.1.2 **Key Achievements Last Month**

- **CY1 Performance** – there had been fantastic achievements throughout the business including Learning & Development, HSQE and procurement.
- **Community Board** – the members of this Board had now been appointed and the Board would now commence to meet and evolve as necessary to fulfil its brief. S Hagan confirmed that it had been made clear at the interviews that Board members would be representing communities.
- **Haven appointed as a supported business for 4 years** – this local company had been appointed to supply logistics services.

5.1.3 **Key Issues Next Month**

- **Audit Scotland report on Transport Scotland's Ferry Services** – M Dorchester commented that he was disappointed by the Supplementary Report and the way in which it had been published. As noted earlier there was likely to be more attention on the DML Annual Report & Accounts and a Q&A would be produced for the Board.

[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)].

- **New vessels** – the launch of 801 was scheduled for 21 November. Planning had been carried out on the impact of further delays to delivery of the new vessels and contingencies drawn up. R Hadfield reported that there would be a meeting shortly between FMEL, CMAL and Transport Scotland to discuss vessel delivery timescales and announcements.

R L Drummond reported that the simulator was not producing the results expected - due to problems with the simulator itself. It was noted that the delay to delivery of vessel 802 now meant that the required port infrastructure works were more closely aligned with the expected delivery date.

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

- **Closing down end of year 1:** CY1 had been delivered with a great result with great work in particular from J Beckett and her team, L de Wolff and his team, Learning & Development and the Service Delivery Director. M Dorchester confirmed that he had some ideas to recognise staff achievements and would revert to the Board with these in due course. S Browell commented that some organisations produce an impact report alongside their Annual Report & Accounts highlighting the achievements throughout the year with awards, major contracts and case studies.

Interferry Conference: M Dorchester reported that Day 1 of the conference had been good but Day 2 had been more technical in nature and he would produce a briefing paper in due course. There had not been a great deal of strategic discussion and it was likely that the European Ferry Operator Conference would be more useful. **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)].**

5.2 **Group Finance Update**

The Board noted the report from J Beckett covering the period to end July and she

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reported as follows:-

5.2.1 DML Group Financial Results – September 2017

5.2.1.1 Group Profit & Loss

- Operating profit **[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 reflecting RET route volumes.
 - Port Operations **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD including berthing **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** YTD due to higher summer spend at CMAL ports which would phase out during winter. J Beckett confirmed that seasonality would be factored into future planning.

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

The Board noted that the Summary Expenditure Variance table had made a vast improvement to the readability of the report.

5.2.1.2 2017/18 Group Financial Year Forecast

Plan Group Profit was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** versus the current forecast of **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**. Major impacts on forecast profit were:-

- CHFS2 performance penalties : **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**
- Vessel maintenance: **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]**

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

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

J Beckett advised that the Finance team were working on a bottom up forecast.

5.2.1.3 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 plus grant payment timing.

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

5.2.2 CHFS2 Contract Year 1 Performance

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5.2.2.1 Summary Contract Year 1 Financial Performance

- Operating return pre-clawback was **[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** (**[FOISA Status – Exemption under Section 33 (Commercial Interests and the Economy)]** positive to Contract) with the key variances outlined in the Summary Operator Return Variance to Contract.

It was noted that sailing delays during busy periods attracted penalties and the inability to meet the timetable, as currently scheduled, during peak periods would need to be discussed with Transport Scotland.

5.2.2.2 Contract Variations & Funding Update

This was noted.

5.2.2.3 Performance Penalties Deductions

This was noted.

5.2.2.4 Bid Commitments Update

This was noted.

5.2.3 **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 (inc vessel maintenance & crewing costs) was +£34k YTD.

5.2.4 **CFL Business Development Activity**

This was noted.

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

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

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

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

6. **ANNUAL REPORT & ACCOUNTS**

6.1 **ANNUAL REPORT & ACCOUNTS**

The Board noted the discussions held earlier in the meeting under 4.1 and that Board members were to submit all comments to Finance by Friday.

The Board **APPROVED** the Annual Report & Accounts, subject to any minor comments being incorporated.

Action: S R Griffin would liaise with R Hadfield to arrange the AGM.

SRG

6.2 **MANAGEMENT REPRESENTATION LETTERS**

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The Board noted that management had reviewed the management representation letters which contained no significant matters for the Board's attention.

6.3 **DIVIDEND RECOMMENDATION**

The Board noted the dividend recommendation paper tabled by J Beckett and she reported that no dividend was recommended. It was noted that a dividend had not been declared for a number of years however there will need to be discussions with the shareholder at some point regarding a future dividend policy. It was noted that as DML was classified as a Non-Departmental Public Body (NDPB) any discussions of dividend policy would need to take in account NDPB rules - as well as the forthcoming pension revaluation.

The Board **APPROVED** the recommendation that no dividend be declared or paid.

At this point B Fulton and D Cannon joined the meeting.

7. **DISCUSSION TOPICS**

7.1 **TV Programme Proposals**

The Board noted the paper and M Dorchester reported that CalMac regularly received requests for participation in TV programme and had recently received several approaches. All requests received during the bid process had been turned down and management were now seeking an 'in principle' Board opinion on participating in TV programmes.

B Fulton reported that TV companies had been asked to come up with more creative suggestions focusing on communities and lifeline services with two of these presented: Ferry Tales and Ferry Islands.

The benefits and risks of participating in a TV programme were outlined and the Board considered these, including whether the same benefits could be achieved by other methods. The Board asked management to consider the purpose of participating in a TV programme, for example as part of a communication strategy for which TV programme participation was one aspect. It was also noted that, whereas a strategy to drive winter passenger numbers would be welcomed, it was not clear that the network could cope with increased passenger numbers in summer. The Board felt that a communication strategy needed to be finalised before consideration could be given to any one part of it in isolation.

At this point B Fulton and D Cannon left the meeting.

7.2 **Board Meeting Dates 2018**

The Board noted the revised meeting dates for 2018 and changes were made to the October Audit & Risk Committee and Safety Committee dates.

The Board **APPROVED** the Board meeting dates 2018.

Action: S R Griffin would update the meeting schedule document and circulate it to the Board.

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At this point A Hunter and C Roberts joined the meeting.

7.3 Values Presentation

A Hunter tabled the Values overview and reported as below:-

- Introducing the values to staff
A staff pack had been issued as well as a briefing for managers & a launch email and the values would be included in the Welcome Pack for new staff.
- Starting team discussions
A values poster had been produced for managers for sessions where staff were asked what the values meant to them, and also for putting up on noticeboards around the network.
- Integrating into existing People activities
The values had been added to the performance management toolkits and training courses would start to feature them – both internal and external trainers had received training on this.
- Next Steps
The Investors in People accreditation assessor would be updated on the roll-out of the values, the Corporate Induction would be refreshed and the values would be incorporated into day to day discussions and team meetings and also into the New Recruitment & Selection process.
- Lessons Learned so far
These included not underestimating the communication challenge and provide more advance briefings and more support to managers.

A Hunter reported that the values had been launched in August and although good progress had been made to date, there was still a long way to go to embed them – it typically took 1-2 years to achieve this.

C Roberts outlined the process of developing the values, reporting that there had been initial Executive Team brainstorming workshops. The input had been extended to the next level in the organisation where refinement had taken place until final values and values statements were produced. These were then rolled out to staff and contextualised.

At this point A Hunter and C Roberts left and K Chamberlain joined the meeting.

7.4 Environmental Presentation

K Chamberlain reported that recent environmental work had been undertaken to meet bid commitments, legal compliance and changing public expectations.

Progress with the Environmental Management Plan had been good: 58% of tasks were complete and 91% of CY1 tasks were complete - the items outstanding including review of waste, ISO 14001 and issuing of the waste tender. Work on green travel for staff and passengers included a plan for passengers on the website.

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An Ecology Management Plan and Biodiversity Action Plan had been prepared. Work was underway with Scottish Natural Heritage (SNH) and Marine Scotland and citizen science projects for marine mammals & marine birds were in progress. CalMac had been part of Oceanwatch for the last three years and wildlife officers had been on board this year – which had attracted positive passenger feedback.

Action: K Chamberlain would arrange for the Board to receive invitations to the Orca training day in Oban on 10 December.

KC

As part of the Carbon 95 commitment to reduce the carbon footprint by CY3, monitoring plans would be produced on the carbon impact of the six largest vessels – currently data was being gathered to produce a baseline. M Dorchester noted that this work would flag up both dirty vessels and vessel size versus passenger numbers.

The waste management strategy completion had been delayed as the single supplier supported business contract had not worked out and a different approach was now being taken via internal recruitment.

Future work included preparing an Environmental Performance Report, Energy Management Plan, Environmental Awareness Training and an Air Quality Plan as well as implementing the Green Travel and Biodiversity Action Plans.

K Chamberlain noted that her ultimate goals as Environmental Manager were to maintain and improve compliance with environmental regulation, reduce the carbon footprint of CalMac and protect and enhance the environment.

It was suggested that K Chamberlain may wish to link with local authorities or Scottish Government over matters such as waste and green / active travel.

At this point K Chamberlain left and B Fulton joined the meeting.

7.5 **CSR Budget Proposals**

The Board noted the paper from B Fulton and he reported as below.

7.5.1 Community Board

The first Community Board meeting had been scheduled for 17 November with a dinner the evening before to which the DML Board and the Transport Minister were invited. The intention was for two meetings per year and the first meeting would review the Terms of Reference and review whether additional meetings might be required in the initial year.

Action: B Fulton agreed to look at the DML Directors appointment terms of reference to see if there were aspects that could be incorporated into the Community Board terms of reference.

BF

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

7.5.2 CSR Proposed Activity

A number of activities were proposed, as below:-

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- **[FOISA Status - Exemption under Section 30 (Prejudice to Effective Conduct of Public Affairs)]**
- Programme of Economic Regeneration – this would build on the Vital Spark programme which had supported 23 social enterprises in Dunoon, Rothesay and Campbeltown over a 3 year period. M Comerford advised linking up with Foundation Scotland who helped businesses beyond the start-up stage.
- Supplier Development Academy – to assist businesses within the CalMac supply chain with skill development via workshops and mentoring.
- Good Will Requests – a very small amount of funding to be distributed via Port Managers in response to local community requests for small amounts.

The Board discussed the proposals and M Dorchester confirmed that this was a high level paper to gauge Board appetite for such activities and that funding for these CSR initiatives would be from profits. R L Drummond commented that CSR was about using the power of business to promote economic growth however verification would be required that the Articles and Framework Agreement would allow CalMac to give grants and also that there were sufficient profits to fund these proposals. It was suggested that the principle was sound and that it fitted with Scottish Government objectives of sustainable economic growth but that the criteria would need to be tightened up.

The Board **APPROVED** the CSR proposals in principle but asked to see more detailed proposals that firmed up on the details.

8. **ADDITIONAL PAPERS - FOR NOTING**

8.1 **Additional Papers - Departmental Reports**

The Board noted the Executive Committee Reports.

9. **ANY OTHER BUSINESS**

9.1 **Board Meeting with Minister for Transport**

R Hadfield suggested that the annual meeting between the Board and the Minister should be arranged in early 2018 – the last meeting having been in April 2017.

Action: R Hadfield would come back to the Board with dates.

RH

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

10. **DATE OF NEXT MEETING**

Wednesday 17 January 2017 at 9.00 a.m.

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Signed:
D C McGibbon
Chairman

Date: 2017