

DAVID MACBRAYNE LIMITED

**MINUTES OF BOARD MEETING HELD IN THE REGUS OFFICES, GLASGOW
ON WEDNESDAY 29 JANUARY 2014 AT 1PM**

Present: Mr D C McGibbon, Chairman
Mr M Easton
Mr S Hagan
Ms P J D Stark
Mr J Stirling
Mr M Dorchester
Mr R L Drummond

In attendance: Mr R Hadfield, Scottish Government (Assessor)
Mr S A Ure, Technical Director, CalMac Ferries Ltd
Mr B Fulton, Operations Director, CalMac Ferries Ltd
Ms C Craig, Commercial Director, CalMac Ferries Ltd
Mr A Collier, Chief Risk Officer, CalMac Ferries Ltd
Mr C P Paterson, Board Administrator

1. PRELIMINARIES

Welcome and Apologies for absence

Mr McGibbon extended a welcome to Mr Hadfield, Mr Ure, Mr Fulton and Mrs Craig and Mr Collier.

Declarations of interest

There were no further declarations of interest, other than those previously made and known to all Directors.

2. MINUTES/MATTERS ARISING

Approve Minutes of Board Meeting held on Tuesday 8 October 2013

Mr Stirling requested a clarification to p4, 5.3 Group Finance Update that the final paragraph should be headed 'Argyll Ferries'.

Subject to these amendments, the Minutes of the Board Meeting held on Tuesday 8 October 2013 were approved.

Matters arising

There were no matters arising.

3. CHAIRMAN'S REMARKS

Mr McGibbon referred to the morning's meeting between the Board and the Minister for Transport and Veterans, Keith Brown, MSP, noting that it had been a good positive meeting. Mr Dorchester had given the Group presentation that previously been made to the Board. Ms Stark had taken notes of the meeting for circulating to the Board. Topics included the Pension Fund and future action; the Scottish Independence Referendum White Paper on Scotland's Future - A Future for Transport; contractual arrangements with CMAL; and Smart Ticketing. The Minister recognised the progress of the Group in the last three years.

Mr Hadfield confirmed that the meeting was beneficial to the Minister as he is informed about aspects that he wouldn't normally hear about. He noted that the regular contact with Mr Dorchester is also very helpful.

The Board discussed the meeting and the benefits of being able to expand upon Group developments of particular interest to the Minister, such as the socio-economic effect of local employment, Gotland, and Fuel Efficiency.

Mr Dorchester recalled that the very first meeting with the Minister had not been quite as beneficial but that there was now an enormous difference. He thanked the Board members for their contributions which had substantially improved matters.

Mr McGibbon noted that a recommendation to fill the vacant post, following Mr Quirk's retirement, had been placed before the Minister. He noted that a new Chairman and Non-Executive Director had been appointed to CMAL and that interviews for the post of Chief Executive were ongoing. He noted that Mr Hadfield would arrange for a meeting between the Board and CMAL's Board, probably for mid-summer.

Mr McGibbon noted that Ms Stark had been appointed Chairman of the Group Audit & Risk Committee and Mr Stirling had been appointed Chairman of the Group Safety Committee.

4. APPROVALS / POLICY MATTERS

CGL Guarantee for MNRPF

Mr Drummond presented his paper. MNRPF closed in 2001. He noted that the matter stemmed from events in 2006 when seagoing staff with membership of the MNRPF were transferred from Caledonian MacBrayne Ltd to Caledonian MacBrayne Crewing (Guernsey) Ltd (CMC(G)L) with various pension options being taken.

Trustees of the MNRPF were not consulted on the transfer in 2006. CMAL (the successor to Caledonian MacBrayne Ltd) are therefore still viewed by Trustees as the employer. They consider CMC(G)L's covenant as less acceptable than CMAL's but this exposes CMAL to s75 liabilities for which there is no provision.

The Board considered the matter and approved the proposal that David MacBrayne Ltd would issue a formal guarantee to CMC(G)L in relation to MNRPF liabilities to satisfy Trustees' requirements. This will form a note in the Annual Report and Accounts 2014.

5. GROUP REPORTS

5.1 Group CEO update

1. OPERATIONAL PERFORMANCE UPDATE

1.1 Safety & Environment

Mr Dorchester presented the report.

He noted some key report points, highlighting that there had been no fatalities, no threats of prosecution or enforcement notices and no food safety incidents. He noted the number of MAIB reports and that the Company would provide reports to the MAIB on incidents that were subject to investigation. One RIDDOR report had been submitted.

Of the five notable incidents, they had either disciplinary or action status attached.

Mr Dorchester noted that weather had dominated in the last period, significantly affecting service provision, although not resulting in any serious incident.

1.2 Key Business Issues

1.2.2 Mr Dorchester noted that the Arran community was under the misapprehension that the provision of a new vessel was being planned, and that work needed to be done to correct this belief.

1.2.4 Mr Dorchester noted that the submission of a bid to the CHFS Tender was only ten months away and expressed concern about the tight timescale.

1.2.10 Mr Dorchester noted that reliability of the MV Hallaig was increasing. Mr Ure noted that there had been some issues over control system failures and that the battery system was now re-instated.

The Board discussed the request for the Company to meet the local community to explain the previous performance level and unreliability of the vessel.

Ms Stark asked for some more detail on 1.2.7. Mr Dorchester noted that clarity on pay rates was requested by the RMT Union. The Union was seeking the opportunity to avoid redundancy when the Clipper Ranger charter ceased. The RMT was also pressing for pay parity for MV Clipper Ranger crew with CalMac crew.

1.2.13 Mr Dorchester noted the local community had reacted very positively to the new vessel operating on the Lismore route.

1.2.14 Mr Dorchester noted that the MV Coruisk was almost keeping to timetable. MV Coruisk was re-deployed to the Wemyss Bay-Rothesay route for a short period when MV Bute sustained a technical problem but there had been no adverse feedback from the Dunoon community. Mr Hadfield noted that the charter of MV Coruisk to Argyll Ferries had reduced some pressure by the local community on the Minister and Deputy First Minister, Nicola Sturgeon, MSP.

1.2.18 Mr Dorchester noted that the condition of piling at Wemyss Bay gives cause for concern. Mr Fulton noted that piles at the outer end of the pier had sustained some wear and tear damage but CMAL had confirmed that they still provided protection. However the whole pier face requires remedial work and the pier is likely to be out of service for around four weeks at a date to be agreed. Mr Dorchester noted that the re-routing of the service to Gourock would provide some challenge to the Gourock infrastructure. Mr Hadfield noted that CMAL had reported the required works to him and that the matter needed to be discussed at the next tripartite meeting.

The Board discussed the repair programme and CMAL's budget strategy.

1.2.20 Mr Dorchester noted that the budget increase on Project Portunes was due to new work being done in line with additional priorities. Mr Drummond noted that the project was in response to what would be demanded in the new CHFS contract.

The Board discussed the matter.

1.3 Customer Care

Mr Dorchester was pleased to see the appreciative feedback from the Public during the extended bad weather period. Regular travellers were acknowledging the additional efforts by staff who all deserved huge credit.

1.4 Our people

1.4.1 Mr Dorchester noted that Ms Dyer had been appointed as Internal Communications Manager and that she would be introducing herself in due course.

1.4.2 Mr Dorchester noted that the Seafarers Forum was beginning to yield results with seafarers raising matters that concerned them as well as contributing the improvement of operations.

The Board discussed the Forum. Mr Dorchester noted that it was important that Board members attended the Forums as seafarers viewed it as recognition of the value of the event. He agreed to provide a diary of company events to the Board so members could consider which to attend.

Action1. Mr Dorchester

1.4.10 Mr Dorchester noted that Mr Ure had made an excellent keynote presentation which had been well received.

1.5 Marketing and Commercial

Mr Dorchester was very pleased to note the MV Finlaggan being prominently featured in the VisitScotland spring campaign TV advertisement.

1.5.5 The Board discussed the display of brochures and distribution at various locations. It was noted that the Scottish Transport Awards review panel had short-listed CalMac Ferries for the Transport Team Partnership of the year Award for its work with VisitScotland and other organisations. The Scottish Tourism Alliance Conference recognised CalMac Ferries as a key contributor.

1.6 Competitors and Regulation

1.6.7 Mr Dorchester noted that the matter of pressure on vessel masters to sail in severe weather was being examined by the MCA and the Nautilus Union. They were studying comments by public figures which may have been unhelpful.

2. STRATEGIC DEVELOPMENTS

2.3 Mr Dorchester noted that the ScotRail Franchise ITT had been issued and it would yield important information which would inform benchmarks and likely CHFS components.

2.6 Mr Dorchester noted that the Executive team would be reviewing the vessel replacement strategy which would be presented to the CalMac Ferries Board.

2.9 Mr Dorchester noted that a timeous response was needed from Transport Scotland if a new vessel was to be acquired for the 2014/15 winter period on the Gourock-Dunoon route.

3. COMMUNICATIONS and 4. OUTLOOK

Mr Dorchester asked the Board to take these sections as read, noting that the appendices in section 9 had informed his Update.

The Board discussed some of the detail in the supporting appendices, including the Iona Workboat and related risk assessment, the current reliability of the MV Caledonian Isles, MV Finlaggan engine vibration problems and the Fleet Upgrades and Modifications Budget.

The Board also noted the MCA confirmation that the Small Vessel Rescue Boat procedure can be operated until further review and the beneficial effect on crewing costs and rostering. Mr Dorchester noted that it was evident that good work had been done to achieve this result.

5.2 Group Finance update

Mr Drummond presented his report.

CHFS Contract

Mr Drummond noted that the Operating Profit was well ahead of plan, reflecting all the Contract variations. He noted that the costs for Projects Titan and Valiant may not be in the February and March report because the rules surrounding the capture of costs associated with intangible assets and pre-paid software are very complicated. The

Projects are still to come to the Board for approval. He noted that the Gotland Project costs are included in the current report.

The Board discussed how costs are captured and accounted for. The Dividend value was also discussed and the frequency of uplift by Transport Scotland.

Gourock-Dunoon Contract

The Board discussed the contract performance.

Mr Drummond indicated that he was happy to discuss any detail in his report, in conjunction with Ms Beckett.

The Board indicated that a discussion on Business Development budget information would be welcomed. Mr Dorchester responded that he would welcome the attendance of any Non-Executive Director at Project Board Meetings and Mr McGibbon encouraged his invitation to be taken up. This was further discussed by the Board.

6. PROGRESS FOCUS

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

6.2 Budget 2013/14 and 2014/15

Mr Drummond presented the paper. He noted that the Group Business Plan was being re-aligned with the financial year and a full review was to be conducted in March, with a report to the next Board Meeting. He noted that one of the key elements of the plan would be projects spend, which was necessary to comply with the expected CHFS bid requirements. For example, Smart Ticketing was a stated requirement in the ScotRail Franchise Bid documentation and it would also be a component of the CHFS Bid.

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

Action2. Mr Dorchester

6.3 Project update

Mr Drummond presented the paper. He noted that it was intended to demonstrate the level of governance that was applied to the Portfolio Management.

Mr Drummond noted that Projects Valiant and Titan costs had increased as bidders had included risk of uncertainty. He added that these risks would be discussed with the bidders and mitigated.

The Board discussed the paper. Mr Dorchester invited Non-Executive Directors to attend whenever a Project Management Board meeting was being held.

6.4 Framework Agreement

Mr Drummond presented the paper. He summarised the paper in that, in high-level terms, there needs to be a governance document to manage the relationship between the Group and Transport Scotland and how budgets are agreed.

Mr McGibbon noted that the Group Audit & Risk Committee is to meet with Transport Scotland's Audit & Risk Committee on 28th April.

The Board noted that a draft framework would subsequently be submitted for review at a subsequent Board meeting.

6.5 Fuels of the future

Mr Ure introduced the presentation which he made at a Transport Scotland Sulphur Emissions Seminar. He summarised the issues, noting that HFO fuel was probably going to be very expensive in the future, following recent changes to legislation. One solution, Gas Scrubbers, produced sludge which had to be disposed of in a safe and environmental manner. MGO fuel meets 80% of the current standards but alternative fuels were being operated in over 1,000 marine engines. Other alternatives included methanol, an LNG variant, but which had safety issues, Hydrogen which had transport safety and storage difficulties to consider, and Hybrid vessels which were complex and costly to operate. As a strategy, LNG provided a lot of environmental and political gain.

The Board discussed fuel options and the future strategy.

7. ITEMS FOR NOTING

7.1 Safety Committee meeting 15 January 2014

Mr Stirling noted that a plan with the objective of achieving an effective safety culture would be completed in February 2014. He sought the Board's approval of the Committee's planned objective to achieve an effective safety culture.

The Board approved the Committee's planned objective to achieve an effective safety culture. The Board also discussed the budget related to safety. Mr Dorchester confirmed that if more money was required for the budget it would be secured and that this was an open-ended commitment.

7.2 Audit & Risk Committee meeting 15 January 2014

Ms Stark noted that there was a new focus on the audit and revenue team structure and responsibilities. There was also a much stronger focus on the management of information. There were also major changes to the Governance Code and that this would be reported at the next meeting.

8. ANY OTHER BUSINESS

Discussion – is the Board meeting your needs?

Mr Dorchester noted that he had issued a pre-Christmas note to the Board about meeting structures. The Board discussed potential meeting structures, examining content, duration and themes, and the possibility of a Network-based meeting. It was agreed that Board members would respond to the note by the end of February.

9. NEXT MEETING

Wednesday 16 April 2014 – at 10 a.m. in the Boardroom, Ferry Terminal Building, Gourock.

DAVID MACBRAYNE LIMITED
BOARD MEETING ACTION POINTS

Board Meeting	Topic	Action No.	Action	Responsibility
29/01/14	<u>OPERATIONAL PERFORMANCE UPDATE</u>	1	Distribute a diary of Company events	MD
29/01/14	<u>Budget 2013/14 and 2014/15</u>	2	Arrange a suitable date for Board to discuss budget	MD