



COMMISSIONERS OF  
NORTHERN  
LIGHTHOUSES

REPORT AND  
ACCOUNTS TO  
31 MARCH 2011



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## The Commissioners as at 23 September 2011

Sheriff Principal R Alastair Dunlop QC (Chairman)  
Captain H M Close (Vice-Chairman)

The Rt Hon Frank Mulholland QC WS  
Lesley Thomson QC

Sheriff Principal Bruce A Kerr QC  
Sheriff Principal Brian Lockhart  
Sheriff Principal Sir Stephen S T Young Bt QC  
Sheriff Principal Mhairi Stephen  
Sheriff Principal Craig Scott

Councillor The Rev Dr George Grubb  
Councillor Robert Winter  
Councillor William Petrie OBE JP DL  
Councillor Peter Stephen  
Councillor Sandy Park

Sir Andrew Cubie CBE  
Robert Quayle  
Alistair Whyte  
John Ross CBE  
Alistair Mackenzie

### Chief Executive

Roger Lockwood CB

### Secretary to the Board

Jill Bennett

We must draw your attention to the note under the heading "Audit" on Page 36 of the Annual Report and Accounts. This note states that:

"The accounting records of the Commissioners' of Northern Lighthouses are examined by the UK Comptroller and Auditor General prior to consolidation in the accounts of the General Lighthouse Fund. The General Lighthouse Fund Accounts are formally certified by the UK Comptroller and Auditor General under the terms of Section 211 of the Merchant Shipping Act 1995 and Section 3 of the Exchequer and Audit Departments Act 1921, as amended by the National Audit Act 1983. There is no provision for a separate audit certificate to be appended to these accounts".

This means that an audit opinion has not been expressed upon them.

At the time of approval of these Accounts the Report and Accounts for the General Lighthouse Fund for the year ended 31st March 2011 have not been laid before Parliament.

## Office and advisers

### Office

84 George Street  
Edinburgh  
EH2 3DA

### Bankers

Royal Bank of Scotland PLC  
36 St Andrew Square  
Edinburgh EH2 2YB

### Auditors

Comptroller and Auditor  
General  
157 - 197 Buckingham Palace  
Road  
Victoria  
London SW1W 9SP

### Solicitors

Anderson Strathern  
1 Rutland Court  
Edinburgh  
EH3 8EY

### Insurance Brokers

Willis Limited  
The Willis Building  
51 Lime Street  
London C3M 7DQ

Bluefin Insurance Services Ltd  
1 Pinkhill  
Edinburgh  
EH12 7BA

### Actuaries

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB



**The Patron**  
Her Royal Highness  
The Princess Royal LG LT GCVO QSO

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**Chairman**  
Sheriff Principal Alastair Dunlop QC

## Chairman's Introduction

It is my pleasure to provide the introduction to this report on the financial year to 31 March 2011. On that date Sir Andrew Cubie completed his term of office as Chairman and I wish to place on record the Board's appreciation of his leadership during a particularly challenging period. During this period the three General Lighthouse Authorities (GLAs) have been subject to considerable political scrutiny and undergone an intensive review, conducted on behalf of the Department for Transport by the consultancy Atkins. The Northern Lighthouse Board has emerged from this process in a strong position and with its distinct identity intact and this is due in no small measure to Sir Andrew's skill, experience and wisdom.

During my time as a Commissioner I have seen immense changes in the Board. Automation and the closure of bases and depots have changed the landscape considerably and, while these changes have contributed to a more cost effective operation, the Board has been quick to realise that there is a need constantly to pursue the most efficient and cost effective discharge of its inescapable statutory obligations. Thus the Board set itself "Stretch Targets" well before the recent recession, which was the context for the scrutiny and review to which I have referred, and was an active proponent of the Joint Strategic Board before it was then taken up as a recommendation in the Atkins Review. I believe the Board's record therefore stands close scrutiny.

The outcome and resulting work from the Atkins Review is described more fully by the Chief Executive in his Review but, as a member of the Joint Strategic Board, I am satisfied that significant progress has been made during its first year of operation and I trust that this will instil confidence in the industry as we seek to make further progress in the year ahead. Each GLA operates in a geographic area which is distinctive and has its own particular challenges. As I look to the future I see a continuation of three separate GLAs, operating in and fully understanding their different geographic areas, but working more and more closely together in order to pursue best practice and realise the efficiencies that will grow from collaborative working where that is possible. We look forward to playing our full part in that collaborative work.

The Northern Lighthouse Board has a long tradition and an enviable reputation which the current Board wishes to enhance. A vivid picture of this was the marking of the bi-centennial of the Bell Rock Lighthouse, the oldest rock lighthouse in continuous service in the world today. Exhibitions at the National Museum of Scotland, the National Library of Scotland and the National Gallery of Scotland, celebrations at the Bell Rock's "home town" of Arbroath, and an international Conference at the Royal Society of Edinburgh reflected not only the significance of the occasion but also the very deep public interest in the subject. Readers of this Report can glance at the painting on the front cover and ponder on the thought that, after two hundred years, the Bell Rock Lighthouse is still delivering the function for which it was built – ensuring safety to the mariner.

Finally, I would like to thank the directors and staff, ably led by Roger Lockwood, for their invaluable work in delivering the Aids to Navigation service. The Board operates in a most demanding environment. Those who rely on the service have great confidence in it. This confidence is testament to the commitment, skill and determination of the Board's staff and the quality of their work. I am sure I speak for all the Commissioners in expressing our deep appreciation of that.

Sheriff Principal Alastair Dunlop QC  
Chairman, Northern Lighthouse Board



**Chief Executive**  
Roger Lockwood

## Chief Executive's review

In March 2010 the engineering consultancy W S Atkins published their report into the Provision of Marine Aids to Navigation around the United Kingdom and Ireland. This report – the “Atkins Review” – was approved in its entirety in June 2010 by the incoming Coalition Government and work since then has been concentrating on addressing its 52 recommendations. This work has also been conducted in parallel with the Government’s determination to drive down the Budget Deficit and has therefore been carried out in a singularly difficult financial climate.

Nevertheless, the Board’s priority has been to continue to fulfil its statutory responsibilities on behalf of the Government by the provision of a reliable Aids to Navigation network in Scottish and Manx waters in accordance with international standards. As in previous years, the Northern Lighthouse Board has met or exceeded all of these standards, despite some appalling weather, and has done so within budget, delivering a saving to the General Lighthouse Fund.

In addition, the main recommendations of the Atkins Review as they impact on the NLB in particular have either been delivered or are very close to being so. The new Joint Strategic Board was established by the General Lighthouse Authorities in April 2010 and, over the course of the year, has made significant strides towards its essential aim of realising greater tri-GLA cooperation and coordination which will in turn provide greater efficiencies and savings. Very encouraging signs are already being shown within the Inter-GLA Committees (held at Director level and below) which are working very productively together and providing the engine for progress.

In addition to the creation of the Joint Strategic Board, work has been concentrating on three significant recommendations in particular. All three individual Boards have agreed that the monitoring of Aids to Navigation, currently conducted by each GLA at its own monitoring centre, should be centralised for out of hours operations at Trinity House (Harwich). Work is progressing very well towards this aim which, for the NLB, will be achieved by the end of October 2011. An immediate outcome is the reduction of NLB’s monitoring staff from five to one. A follow-on study into the number of buoy yards operated by the GLAs has concluded that all four should remain, but that excess capacity should be significantly reduced. NLB will have the optimum buoy maintenance staff at Oban by the end of this financial year.

The third recommendation to be highlighted in this report is the introduction of an “RPI-X” savings regime to be delivered over a five year period starting with 2011/12. This is already having a significant impact and will require the NLB to reduce its Running Costs by a figure agreed by the Department for Transport below RPI; this is 2.68%, or 3.12% if commercial income is offset against Running Costs. The Board’s intention over the next five years is to improve upon these figures and deliver real and deliverable savings to the benefit of Lights Dues payers without risking delivery of its essential network of Aids to Navigation.

2010/11 has therefore been a year of challenge and progress. The challenge will not diminish as the discipline of RPI-X continues to bite, but nor will progress as the latter will be vital to achieving the former. However, although considerable strides have been made since the publication of the Atkins Report, there is still much work to be done on a wider scale in addition to that described above. Foremost amongst this is the need to ensure that the provision of Aids to Navigation in the Republic of Ireland is self-financing by 2015/16 and, concomitant with this, is the further need to address long-term pension arrangements which is being tackled by a sub-committee of the JSB.

Roger Lockwood  
Chief Executive



Rain Squall over the Bell Rock Lighthouse  
© by permission of John Lowrie Morrison

# The Commissioners

**R Alastair Dunlop QC (B, M, N, Nav, R)**  
**Sheriff Principal of Tayside, Central and Fife.**  
**Commissioner since 28 April 2000.**  
**Chairman since 1 April 2011**

Advocate 1978; Advocate Depute 1985-1988; Standing Junior counsel to Department for Transport 1988-90; QC 1990; Chairman part-time, Employment Tribunals 1998-00; Chairman part-time, Pensions Appeal Tribunal 1991-2000; Procurator of the General Assembly of the Church of Scotland 1991-00.



**Frank Mulholland QC (B, A, N)**  
**Lord Advocate for Scotland**  
**Commissioner since 30 May 2007**

Procurator Fiscal Service 1984-1997 (Greenock, Glasgow, Edinburgh, Crown Officer High Court Unit, Crown Office Appeals Unit). Advocate Depute 1997-1999. Assistant Procurator Fiscal & District Procurator Fiscal (Edinburgh) 1999-2002. Senior Advocate Depute 2002-2006. Area Procurator Fiscal (Edinburgh & Lothian) 2006-07. Solicitor General for Scotland 2007-2011. Appointed Lord Advocate 25 May 2011.



**Mhairi Stephen (B)**  
**Sheriff Principal of Lothian and Borders.**  
**Commissioner since 7 May 2011**

Admitted as a solicitor in 1978 and practised in civil litigation as a partner with Allan MacDougal Solicitors; appointed as an all Scotland floating sheriff based at Edinburgh in 1997; resident sheriff at Edinburgh in 2000; Insolvency Sheriff from 2000-07; Personal Injury Sheriff, appointed by the Sheriff Principal to oversee the new Personal Injury Procedure in the Sheriff Court at Edinburgh 2007-11; member of the Board of the Scottish Civil Courts Review which reported in September 2009.



**Captain H M Close (B, M, R, Nav)**  
**Elected by the Commissioners.**  
**Commissioner since 1 July 2008 and co-opted until 30 June 2014**  
**Vice-Chairman since 1 April 2011**

Senior Principal Consultant with GL-Noble Denton Ltd, providing specialist advice and project management support to the global offshore industry; Member of Royal Institution of Naval Architects, Chartered Institute of Logistics and Transport, Chartered Management Institute.



**Lesley Thomson QC (B)**  
**Solicitor General for Scotland.**  
**Commissioner since 25 May 2011**

Solicitor SoSEB (1981-1985). Procurator Fiscal Service 1985-2008 (Greenock, Paisley, Glasgow, District Procurator Fiscal for Selkirk, District Procurator Fiscal for Edinburgh, and Interim Area Procurator Fiscal for Lothian & Borders). Area Procurator Fiscal Glasgow & Strathkelvin (2008-2011). Appointed Solicitor General on 25 May 2011.



**Bruce Kerr QC (B, M, N)**  
**Sheriff Principal of North Strathclyde.**  
**Commissioner since 31 December 1998**

Advocate 1973; Standing Junior counsel to Home Office in Scotland 1982-85; QC 1986; Advocate Depute 1986-89; Chairman (part-time), VAT Tribunals 1992-94; Trustee, National Library of Scotland 1994-99; Sheriff of Glasgow and Strathkelvin 1994-98; Sheriff Principal of North Strathclyde since 1999.



**Brian Lockhart (B, N)**  
**Sheriff Principal of South Strathclyde, Dumfries and Galloway.**  
**Commissioner since 1 November 2005**

Partner, Robertson Chalmers and Auld, Solicitors, Glasgow 1967-1979; Sheriff of North Strathclyde at Paisley 1979-1981; Sheriff of Glasgow and Strathkelvin 1981-2005; Member of Parole Board for Scotland 1999-2003; President Sheriffs' Association 2003-2005; Temporary Judge in the Court of Session since 2008.



**Craig Scott (B)**  
**Sheriff Principal of Glasgow and Strathkelvin.**  
**Commissioner since 1 May 2011**

Solicitor 1984; admitted to the Faculty of Advocates in 1986; Advocate 1986-99; Advocate Depute 1994-97, Standing Junior Counsel to the Scottish Office Environment Department 1994-97, and to the Scottish Office Development Department 1997-1999; Sheriff of Glasgow and Strathkelvin 1999-2011; Specialist Sheriff in the Commercial Court in Glasgow.



**Sir Stephen S T Young Bt QC (B, A, R)**  
**Sheriff Principal of Grampian, Highland and Islands.**  
**Commissioner since 10 September 2001**

Solicitor 1973; Advocate 1977; QC 2002; Sheriff of Glasgow and Strathkelvin, March - June 1984; Sheriff of North Strathclyde at Greenock, June 1984 - September 2001



**John Ross CBE FRAGS (B, A, R)**  
**Elected by the Commissioners. Commissioner since 1 October 2008 and co-opted until 30 September 2014**

Senior Partner Aucheenree Farms; Chairman Moredun Foundation; Chairman Vetaid; Chairman NFU Mutual Scottish Board; Chairman NHS Dumfries and Galloway 1997-2008; President NFU Scotland 1990 - 1996.



**Sir Andrew Cubie CBE (B, M, R)**  
**Elected by the Commissioners. Commissioner since 14 January 2003 and currently co-opted until 31 March 2012**

Consultant to the firm of Fyfe Ireland LLP and the World Bank; Non-Executive Director of a number of private companies engaged in corporate finance to manufacturing; Deputy Chairman RNLI; Chairman RNLI Scotland, Scottish Credit & Qualifications Framework, Quality Scotland, Healthy Working Lives; and The Leadership Foundation.



**Alistair Whyte (B, M, A, Nav)**  
**Elected by the Commissioners. Commissioner since 28 February 2004 and currently co-opted until 27 February 2013**

Master Mariner; formerly Deputy Chairman, Red Funnel Group (Holdings) Ltd; Fellow of the Institute of Chartered Shipbrokers; Non Executive Director to the Board of Caledonian Maritime Assets Ltd.



**Alistair Mackenzie (B, M, N, Nav)**  
**Elected by the Commissioners from 1 August 2009 and co-opted until 31 July 2012**

Master Mariner currently Director, Oil & Gas for the Achilles Group companies and a non-executive member of the Achilles Board, and Aberdeen Harbour Board.



**Robert Quayle (B, M, N)**  
**Commissioner nominated by the Lieutenant Governor of the Isle of Man. Commissioner since 26 May 2004 and currently co-opted until 25 May 2013**

Chairman, Isle of Man Steam Packet Company; Director of IPIR Ltd, Principal Subsidiary of UK P&I Club, Director, Total (Isle of Man); English Solicitor, 1974; Clerk of Tynwald and Secretary of the House of Keys, 1976-1987; Partner then consultant with Travers Smith Brathwaite, 1987 - 1999.



**Councillor The Rev Dr George Grubb (B)**  
**The Rt Hon The Lord Provost of Edinburgh.**  
**Commissioner since 17 May 2007**

President: Edinburgh International Science Festival; Chair and Director: Edinburgh International Festival Society, Edinburgh Military Tattoo (Charities) Ltd, Edinburgh Military Tattoo Ltd; Director: Dynamic Earth Charitable Trust.



**Councillor Sandy Park (B)**  
**Convener of Highland Council.**  
**Commissioner since 17 May 2007**

Former Chair of Planning, Development, Europe and Tourism Committee 2001 - 2007; former Chair of Highland Opportunity (10 years); Provost of Nairn for 8 years; retired 2007 as General Manager WW Brown, Butchers.



**Councillor William Petrie OBE JP DL (B)**  
**Convener, Argyll and Bute Council.**  
**Commissioner since 1 April 2001**

Chairman, Helensburgh & District Council 1970-75; Vice Convener of Dunbartonshire 1970-72; County Convener of Dunbartonshire 1972-74; Provost, Dumbarton District Council 1977-80, 1988-91; Vice Convener, Argyll and Bute Council 1996-2001; Board Member, NHS Highland; Board Member, Loch Lomond & the Trossachs National Park; Chairman, Argyll, Loch Lomond & Forth Valley Tourism Partnership.



**Councillor Robert Winter (B)**  
**The Rt Hon Lord Provost of Glasgow.**  
**Commissioner since 17 May 2007**

Lord Lieutenant of the City of Glasgow; convener of the Risk Management Authority from 2004; lay member of the General Medical Council 1996-2007; member of the NHS Greater Glasgow Primary Care Trust 1996 -2005; past President of the Association of Directors of Social Work, retired 1996 as Director of Social Work, Strathclyde Region.



**Councillor Peter Stephen (B)**  
**Lord Provost of Aberdeen.**  
**Commissioner since 16 May 2007**

Lord-Lieutenant of Aberdeen City; Lord High Admiral of the Northern Seas; Vice Admiral of the Coast of Great Britain & Ireland; Trustee on the Board of the National Library of Scotland; President of Aberdeen Branch of the Royal National Lifeboat Institution; Honorary President of the Bridge of Don Sea Cadet Unit; Vice President - Shipwrecked Fishermen & Mariners' Royal Benevolent Society; Vice President of Highland Reserve Forces' & Cadets' Association Member of the Chartered Institute of Bankers in Scotland.



B	Board of Commissioners
M	Managing Board
Nav	Navigation Committee
N	Nomination Committee
R	Remuneration Committee
A	Audit & Risk Committee

*The Commissioners of Northern Lighthouses have pleasure in presenting their Report and Accounts for the year ended 31 March 2011. These Accounts are prepared by the Commissioners in respect of their function as the General Lighthouse Authority for Scotland and adjacent seas and islands and the Isle of Man in accordance with a directive made by the Department for Transport under the powers of the Secretary of State contained in Section 218 of the Merchant Shipping Act 1995 and are subsequently consolidated to form part of the General Lighthouse Fund Accounts which are prepared pursuant to Section 211(5) of the Merchant Shipping Act 1995.*

# Commissioners' Report

## Management

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### Board membership

The Commissioners were established as a corporate body in 1786. Their incorporation is set out in Section 193 of and Schedule 8 to the Merchant Shipping Act 1995 and, is as follows:-

- (a) The Lord Advocate and the Solicitor-General for Scotland;
- (b) The Lords Provosts of Edinburgh, Glasgow and Aberdeen and the Conveners of Highland and of Argyll & Bute Councils;
- (c) The Sheriffs Principal of all the Sheriffdoms in Scotland;
- (d) a person nominated by the Lieutenant Governor of the Isle of Man and appointed by the Secretary of State;

In addition, the Commissioners may elect;

- (e) not more than five other persons elected by the Commissioners under, and subject to, the proviso set forth in Paragraphs 2 and 3 of Schedule 8 to the Act;
- (f) the convener of any council whose area includes any part of the coast of Scotland.

The ex-officio appointments are for duration of the occupancy of the qualifying office. Persons appointed under (d) and (e) hold office for three years but may be re-appointed for further terms.

The Commissioners have also agreed with the Department for Transport that the Secretary of State will nominate one person for election under (e).

The membership of the Northern Lighthouse Board in **2010/2011** was as follows:-

#### Law Officers for Scotland

The Rt Hon Elish Angiolini QC WS, The Lord Advocate  
Commissioner since 5 December 2001 until 5 May 2011  
Frank Mulholland QC, Solicitor General for Scotland  
Commissioner since 30 May 2007

### **Sheriffs Principal of the Sheriffdoms in Scotland**

Sheriff Principal Edward F Bowen CBE TD QC, Sheriff Principal of Lothian and Borders

Commissioner since 17 November 1997 until 6 May 2011

Sheriff Principal R Alastair Dunlop QC, Sheriff Principal of Tayside, Central & Fife

Commissioner since 28 April 2000. Chairman from 1 April 2011

Sheriff Principal Bruce A Kerr QC, Sheriff Principal of North Strathclyde  
Commissioner since 31 December 1998

Sheriff Principal Brian Lockhart, Sheriff Principal of South Strathclyde, Dumfries and Galloway.

Commissioner since 1 November 2005

Sheriff Principal James A Taylor, Sheriff Principal of Glasgow and Strathkelvin

Commissioner since 1 November 2005 until 29 April 2011.

Sheriff Principal Sir Stephen Young Bt QC, Sheriff Principal of Grampian, Highland and Islands

Commissioner since 10 September 2001

### **Nominated by the Lieutenant-Governor of the Isle of Man and appointed by the Secretary of State**

Robert Quayle

Commissioner since 26 May 2004 and appointed until 25 May 2013

### **Elected by the Commissioners**

Alistair Whyte

Commissioner since 28 February 2004 and co-opted until 27 February 2013

Captain Mike Close

Commissioner since 1 July 2008 and co-opted until 30 June 2014

John Ross CBE

Commissioner since 1 October 2008 and co-opted until 30 September 2014

Alistair Mackenzie

Commissioner since 1 August 2009 and co-opted until 31 July 2012

### **Nominated by the Secretary of State and elected by the Commissioners**

Sir Andrew Cubie CBE

Commissioner since 14 January 2003 and co-opted until 31 March 2012

Chairman from 1 April 2009 to 31 March 2011

### **Lord Provosts**

Councillor Robert Winter, The Rt Hon Lord Provost of Glasgow

Commissioner since 17 May 2007

Councillor Reverend Dr George Grubb, The Rt Hon Lord Provost of Edinburgh

Commissioner since 17 May 2007

Councillor Peter Stephens, Lord Provost of Aberdeen

Commissioner since 16 May 2007

### **Convener of Highland Council**

Councillor Sandy Park

Commissioner since 17 May 2007

### **Convener of Argyll & Bute Council**

Councillor William Petrie OBE JP DL

Commissioner since 1 April 2001

Average number of years service for

Commissioners in post on 31 March 2011

6.6

### **Patron**

Her Royal Highness The Princess Royal LG LT GCVO QSO continues to act as the Patron of the Northern Lighthouse Board.

## Senior management in 2010/2011

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Roger Lockwood CB

Chief Executive

Moray Waddell B.Sc.(Hons) MSc MIEE MIMechE MCIBSE

Director of Engineering

Captain Phillip Day MNI

Director of Marine Operations

Douglas Gorman ACMA CFIIA

Director of Finance and Administration

## Corporate Governance

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### Organisation structure

The Commissioners form the Board of Commissioners that leads and controls the Northern Lighthouse Board. The Board of Commissioners meet on four occasions each year and has a formal schedule of matters reserved to it for decision. There are five Committees of the Board that also meet frequently and regularly and deal with specific aspects of the management of the Northern Lighthouse Board.

The Board has delegated authority to these Committees and each has defined terms of reference, subject to annual review. In the year all terms of reference have been reviewed and where necessary amended.

At its meeting on 22nd February 2010 the Board of Commissioners approved the following proposal:

- that the Board of Commissioners reduce from four to three meetings a year from April 2011, with the caveat that the timings of the meetings should be adjusted in line with business process requirements, reporting Committees and the new strategic Joint Strategic Board meetings.

The Commissioners are all independent, i.e. they have no personal financial interest, other than as Commissioners, in the affairs of the Board, no potential conflict from cross-directorships, and no day-to-day involvement in the running of the Northern Lighthouse Board other than as members of the Managing Board.

Only co-opted Commissioners and the Isle of Man Nominee receive remuneration for their services. The arrangements are set out in an agreement with DfT. The level of remuneration and annual increase are notified to the Board by the DfT and are based on remuneration paid to similar non-executive posts in other public bodies.

The Director of Finance and Administration provides the DfT with an annual analysis of individual payments made to co-opted Commissioners to provide an assurance on compliance with this remuneration guidance.

The Board of Commissioners has vested responsibility for the overall management of activities in a Managing Board. It is made up of the Chairman, Vice Chairman, four other Commissioners, the Chief Executive and the three Directors. The Managing Board meets on six occasions each year. The Board of Commissioners has also established four other committees to deal with specific topics:

**Audit and Risk Committee** - to review the effectiveness of the internal control systems including corporate governance

**Navigation Committee** - to formulate policies for the provision of Aids to Navigation

**Nomination Committee** - to recommend individuals to be appointed as Commissioners under Paragraph 2 & 3 of Schedule 8 to the Merchant Shipping Act 1995, and to recommend Commissioners for appointment to the Board's Committees.

**Remuneration Committee** - to determine remuneration for the Chief Executive and executive directors

The Board of Commissioners and all its committees receive papers for meetings one week prior to all meetings. To ensure that the Commissioners are properly briefed a number of arrangements have been put in place, for example:

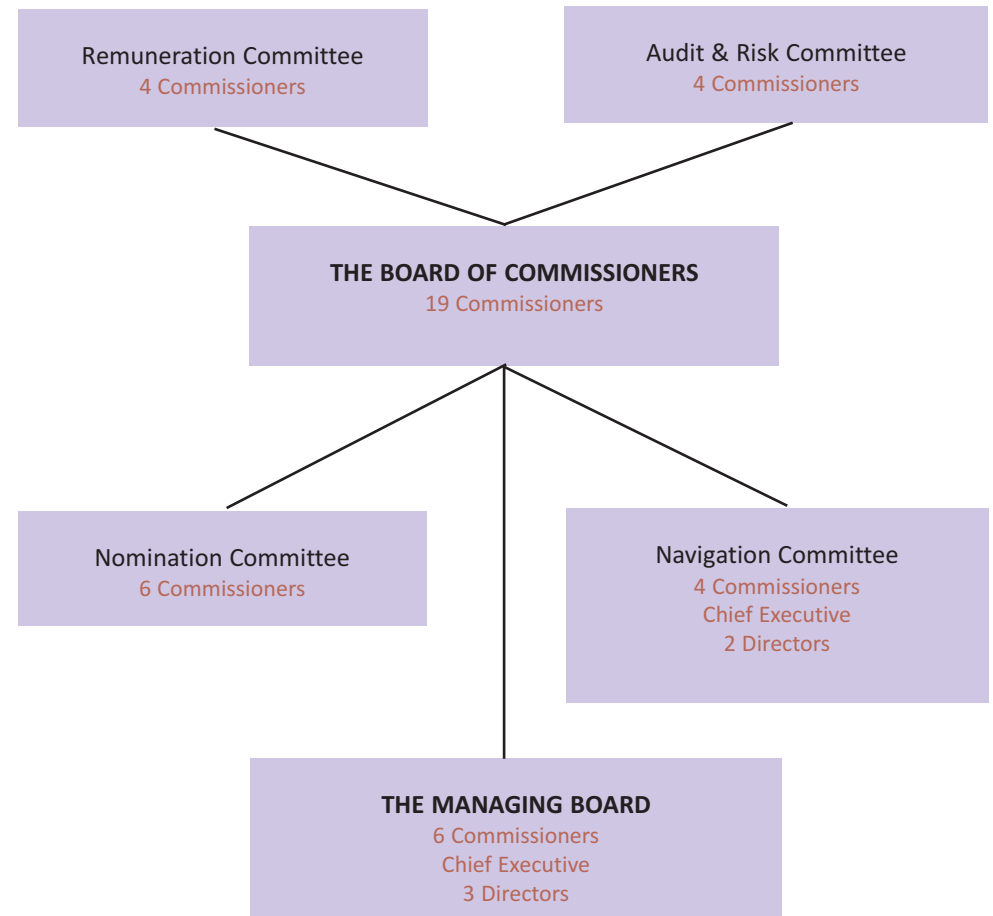
- attendance at Board of Commissioners' meetings by the Chief Executive and Directors;
- attendance at Board of Commissioners and Committee meetings by managers who can provide specialist and professional advice to Commissioners.

### Code of best practice for Board members

The Board has formally adopted a Code of Guidance for Commissioners. The Code is based on a Model Code of Best Practice for Public Bodies issued by HM Treasury. The Code is underpinned by the Seven Principles of Public Life set out by the Committee on Standards in Public Life.

Additional information required by Commissioners is provided by the Chief Executive and Directors.

The Board's committee structure during the year was as follows:



## Board of Commissioners

At its meetings, the Board of Commissioners receives reports from the various committees and considers matters specifically reserved to the Board. During the year, the Board has approved the Corporate Plan; the Annual Report and Accounts; the establishment of the Joint Strategic Board.

**Number of Meetings held in 2010/2011** 4

### Committee Members Attendance

Commissioners

Sir Andrew Cubie (Chairman)	4/4
The Rt Hon Elish Angiolini	3/4
Frank Mulholland	1/4
Sheriff Principal Edward F Bowen	3/4
Sheriff Principal R Alastair Dunlop	2/4
Sheriff Principal Bruce A Kerr	3/4
Sheriff Principal Sir Stephen Young	1/4
Sheriff Principal James A Taylor	0/4
Sheriff Principal Brian Lockhart	2/4
Councillor Robert Winter	0/4
Councillor The Rev Dr George Grubb	1/4
Councillor William Petrie	0/4
Councillor Peter Stephen	0/4
Councillor Sandy Park	1/4
Robert Quayle	2/4
Alistair Whyte	3/4
Captain Mike Close	3/4
John Ross	4/4
Alistair Mackenzie	3/4

## Managing Board

The Managing Board meeting has a standing agenda which includes:

- financial performance and forecast review;
- review of performance indicators of Aids to Navigation;
- Quality, Health, Safety and Environment matters;
- Estate matters

**Number of Meetings held in 2010/2011** 7

### Committee Members Attendance

Commissioners

Sir Andrew Cubie (Chairman)	7/7
Sheriff Principal R Alastair Dunlop	6/7
Sheriff Principal Bruce Kerr	5/7
Alistair Mackenzie	5/7
Robert Quayle	6/7
Alistair Whyte	7/7

## Audit and Risk Committee

The Audit and Risk Committee, which is comprised entirely of Commissioners and is advised as necessary by the Chief Executive and Director of Finance and Administration, has been given wide terms of reference by the Board of Commissioners to review all areas of financial control and probity. The Committee meets four times annually, to discuss findings, and to consider detailed audit reports and recommendations for the improvement of the Board's systems of internal control, together with management's response and implementation plans. It reviews the Board's annual financial statements together with the accounting policies. On at least one occasion each year the Committee is joined by the National Audit Office. The Audit Manager from the Department for Transport's Audit and Risk Assurance Division (who provide an independent internal audit service to the Board) attends every meeting.

5/6 Denotes the number of attendances/number of possible attendances eg five attendances out of a possible six

During the year the Committee reviewed the findings of internal audits carried out covering:

- Navigation Capital Planning
- Data Handling and Corporate and Annual Planning
- Training and Development
- AtoN Deployment and Service Delivery
- Working Time Regulation
- Board Management Information
- AtoN Planning Review (5yr Coastal Review)

The Committee also considered the going concern statement. The National Audit Office joined the Committee for four meetings in 2010/2011. All meetings include a private session between the Committee Members and the Head of Internal Audit and National Audit Office representative.

The responsibility for auditing the accounting records lies with the Comptroller and Auditor General under Section 211 of the Merchant Shipping Act 1995. The Committee is not therefore involved in the re-appointment of auditors.

Only in exceptional circumstances will the Board engage the auditors to undertake non-audit work. In these circumstances approval will be sought from the DfT and the National Audit Office to avoid any potential conflict of interest. During the year there was no non-audit work completed.

The Audit & Risk Committee reports directly to the Board.

**Number of Meetings held in 2010/2011** 4

**Committee Members Attendance**

John Ross (Chairman)	4/4
Sheriff Principal Sir Stephen Young	4/4
Captain Mike Close	4/4
Frank Mulholland	4/4

## Navigation Committee

The Navigation Committee is responsible for determining the requirements for specific Aids to Navigation and reviewing the plans and financial projections for any changes to the Board's network of Aids to Navigation and managing, on behalf of the Board, the consultation process with the maritime community.

During the year the Committee continued to monitor and approve the capital works programme.

The Committee reports directly to the Managing Board.

**Number of Meetings held in 2010/2011** 3

**Committee Members Attendance**

Alistair Whyte (Chairman)	3/3
Sheriff Principal R Alastair Dunlop	3/3
Captain Mike Close	2/3
Alistair Mackenzie	3/3

## Nomination Committee

The Nomination Committee is responsible for the appointment process for Co-opted Commissioners under Paragraph 2 and 3 of Schedule 8 of the Merchant Shipping Act 1995. Part of the process is to identify the specific skills required by new Commissioners to balance the existing skills within the Board and to complement the skills within the Executive. The Committee also made recommendations on the membership of the Board's Committees.

The Committee reports directly to the Board. The decision on individual appointments is reserved to the Board who make the decision based on the recommendation made by the Committee.

**Number of Meetings held in 2010/2011** **1**

### Committee Members Attendance

Sheriff Principal Edward F Bowen (Chairman)	1/1
The Rt Hon Elish Angiolini	1/1
Sheriff Principal Bruce Kerr	1/1
Sheriff Principal James A Taylor	0/1
Robert Quayle	0/1
Sir Andrew Cubie	1/1

## Remuneration Committee

The salary and bonuses of the Chief Executive and Directors are determined by a Remuneration Committee consisting of the Chairman and Vice Chairman and two other Commissioners.

During the year the Committee completed the Directors' Salary Review that took effect from 1 August 2010.

The Committee reports directly to the Board of Commissioners.

**Number of Meetings held in 2010/2011** **1**

### Committee Members Attendance

Sir Andrew Cubie (Chairman)	1/1
Sheriff Principal Sir Stephen Young	1/1
John Ross	1/1
Sheriff Principal R Alastair Dunlop	1/1

## Management Commentary

### Statutory environment

The Commissioners owe their origin to the Act 26 George III Cap 101 dated 1786 which appointed nineteen Commissioners to carry out the Act which stated in its preamble that "it would conduce greatly to the security of navigation and the fisheries if four lighthouses were erected in the northern parts of Great Britain". The Act gave the Commissioners the necessary powers to purchase land, levy dues and borrow funds. Further legislation widened the Commissioners' powers and they were given the power to erect lighthouses on the Isle of Man in 1854.

The Commissioners were incorporated by Act of Parliament in 1798 under the title "The Commissioners of the Northern Lighthouses". This title was altered to its present form by the Merchant Shipping Act 1853.

Under Section 193 of the Merchant Shipping Act 1995 the Commissioners of Northern Lighthouses are appointed as the General Lighthouse Authority for Scotland and adjacent seas and islands and the Isle of Man, and under Section 195 are vested with responsibility for the superintendence and management of all lighthouses, buoys and beacons.

The Commissioners, within the area of jurisdiction for which they are the General Lighthouse Authority, have various powers and responsibilities in connection with the provision, maintenance, alteration, inspection and control of lighthouses, buoys and beacons, under Section 197 of the 1995 Act as amended. They also have Wreck Removal powers under Section 253 of the Act.

The Northern Lighthouse Board carries out the functions of the Commissioners of Northern Lighthouses who are constituted in terms of, and are given certain powers and duties by, Part VIII of and Schedules 8 and 9 to the Merchant Shipping Act 1995. The subject matter of that Act is a reserved matter under Section 30 of and Schedule 5 to the Scotland Act 1998 and in terms of Section 29 of

the Scotland Act 1998. The Board's affairs will continue to be subject to legislation passed by the United Kingdom Parliament. Ministerial responsibility will remain with the Department for Transport.

The Merchant Shipping and Maritime Security Act 1997 amended the Merchant Shipping Act 1995 to give the Board the powers to enter into, and perform contracts with, third parties utilising spare capacity, with the permission of the Secretary of State. The Commencement Order for this and other provisions came into force on 17 July 1997.

The General Lighthouse Authorities (Beacon: Maritime Differential Correction System) Order 1997 came into force on 12 January 1998 and states that the definition of "Beacon" in Part VIII of the Merchant Shipping Act 1995 includes equipment for a Differential Global Positioning System (DGPS).

The General Lighthouse Authorities (Beacons: Automatic Identification System) Order 2006 came into force on 21 July 2006 and states that the definition of "Beacon" in Part VIII of the Merchant Shipping Act 1995 includes Automatic Identification System equipment used to provide aids to navigation.

The Corporation of Trinity House (England, Wales, Channel Islands and Gibraltar), the Commissioners of Northern Lighthouses (Scotland and the Isle of Man) and the Commissioners of Irish Lights (the whole of Ireland) are the General Lighthouse Authorities (GLAs) for the British Isles.

### Responsibilities

#### General

As the General Lighthouse Authority for Scotland and the Isle of Man the Board has responsibility, subject to certain provisions, for the superintendence and management of "all lighthouses, buoys and beacons" throughout Scotland and the Isle of Man including "the adjacent seas and islands..." within and beyond territorial waters. In all, the Board provides over 400 physical aids complemented by a mix of radio navigation aids for the safety of all mariners engaged in general navigation irrespective of who pays for the service, the size or type of the vessel, equipment fit, the competence of crew, or flag.

## Safety of Life at Sea Convention

Because of its powers and duties under public law, the Board assumes responsibility for positive discharge of the Government's obligations under the Safety of Life at Sea Convention 1974 (Chapter V, Regulation 13) for the provision and maintenance of aids to navigation within its area of jurisdiction. To assist this process, the Board, together with General Lighthouse Authorities for England & Wales and Ireland, takes steps to:

- observe and record developments at the International Maritime Organisation (IMO);
- actively participate at Council and Committee level at the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA);
- observe and record maritime developments within the European Union and elsewhere;
- maintain links with the International Telecommunications Union through the national radio licensing authority and IALA, regarding the allocation of radio frequencies in NW Europe;

## Marking of works below High Water

The Board acts as an adviser to the Scottish Government on the establishment and variation, from time to time, of navigational marking for certain works to which the consent of the Secretary of State has been issued under Section 34 of the Coast Protection Act 1949 - as extended to offshore installations in designated areas by Section 4 of the Continental Shelf Act 1964.

## Wreck removal powers

The Board has a statutory responsibility for wrecks. The Board has powers to "mark, raise, remove or destroy" any vessel "sunk, stranded or abandoned in any fairway, or on the seashore or on or near any rock, shoal or bank, in its area of jurisdiction or any of the adjacent seas or islands" where there is no harbour or conservancy authority with power to raise, remove, or destroy the vessel.

## Local Lighthouse Authorities

Local Lighthouse Authorities are required to obtain the sanction of the appropriate General Lighthouse Authority for their area to establish, alter or discontinue any aids to navigation within their local jurisdiction. As part of their statutory responsibilities, the Board inspect over 1,700 local aids to navigation in ports and harbours and carry out seaward inspections of offshore installations to ensure that the aids conform to the approved standards and are working properly.

## Operating facilities

The Board operates from a corporate head office in Edinburgh, an operating base in Oban and two smaller facilities in Shetland and Orkney. The Board also has two ships, a leased helicopter and a small fleet of vehicles with which to help mobilise the team of technicians, engineers and navigation experts to manage, maintain and inspect the network of aids to navigation around the coast.

## Physical environment

The Board's area of jurisdiction or operation covers over half the waters and coastline of the United Kingdom together with the majority of offshore and gas installations.

The area contains numerous environmentally sensitive locations (for example, Pentland Firth and the Minches) as well as recognised traffic routes for many ships carrying hazardous or potentially polluting cargoes. The UK Government has recognised this by creating a number of Marine Environmental High Risk Areas around Scotland.

Severe weather conditions can be experienced at any time of the year and some of the strongest tidal streams are found in our waters.

Length of coastline	10,000 km/6,214miles
Land area	77,700 sqkm/30,405sq miles
Number of islands	790 (130 inhabited)

## Economic environment

### Funding

The costs of the Board's services are met from the General Lighthouse Fund (GLF). The income to the GLF comes mostly from light dues which are charged on commercial shipping at United Kingdom and Republic of Ireland ports. There is no provision for Exchequer funding except in the Republic of Ireland and in relation to guarantees under the GLAs' borrowing powers. A Letter of Comfort relating to pension liabilities has been provided - see Appendix A. The Secretary of State for Transport has a duty to ensure the effective management of the GLF and enable the adequate provision of aids to navigation at the minimum cost.

### Light dues

In Europe, Belgium also levies charges on shipping for use of its navigational aids, but the sums involved are low by comparison with light dues and presumably this is due to the length of Belgium's coastline. France, Germany and the Netherlands fund their navigational aids from general taxation. Given that UK commercial ports compete for traffic in some sectors with Continental ports in North West Europe and navigational aids outside port limits are generally funded out of general taxation on the Continent, there has been pressure from light dues payers to investigate the view that there could be some distortion of competition between UK and Continental ports as a result of the light dues system.

In the report from W S Atkins in March 2010 (Assessment of the Provision of Marine Aids to Navigation around the United Kingdom & Ireland) they reviewed the methods of funding of aids to navigation around the world. The report said:

"The case studies represent a relatively small sample of maritime states around the world, so any observations drawn are indicative only. However, based on this sample, it is possible to make the following observations:

- even within the small sample there are a wide range of approaches in relation to administrative structure and financing for AtoN provision;
- within the sample there is more emphasis on integrated administration of maritime safety: e.g. Denmark, Canada, France, Spain, although the overall responsibility varies between the Navy (US), Public Works (Spain), Fisheries (Canada);
- the approach to charging users for AtoN varies – from no charges in Denmark to full cost charging in India. In the US the Harbour Maintenance Tax generates a substantial surplus;
- where user charges exist, they are unpopular and there are calls to abolish them;
- the responsibility for 'local' lights varies – in India and Denmark it is similar to the UK;
- in the US, the State is responsible;
- the degree of devolution varies: in Canada and the USA, the Federal Government takes a lead; in Spain, regulation is done at the national level, but provision is regional/local."

The Government remains committed to the present system of recovering costs through light dues but is determined to minimise the cost burden on the shipping industry.

The General Lighthouse Authorities have consistently delivered reductions in the rate of light dues - the rate per tonne has fallen repeatedly since its 1993 peak of 43p and since 1 April 2006 it remained at 35p. However, the general economic and financial climate has had two significant effects on the General Lighthouse Fund:

- The downturn in shipping traffic affecting our principal source of income – light dues – that varies by the number and frequency of port calls together with the size of the vessel.

- The reduction in income earned by the Fund’s investments.

After consultation with the GLAs and the Lights Advisory Committee, that represents shipping, ports and cargo interests, the Department for Transport proposed to increase the light dues rate to generate the necessary additional income in sufficient time to avoid the Fund having to dip into the emergency reserves.

The Department issued a consultation document on 23rd February 2009 inviting comments on the proposed increases. The consultation period ended on 18 May 2009. The shipping and ports sectors did not support the proposed increases at a time of a downturn in shipping and the effect on their own businesses. These points will have been made in formal representations to the Department. However, the GLAs also responded to the consultation explaining the necessity of the first increases since 1993. After considering these representations the Minister decided on the following changes to the light dues tariff:

	Previous	wef 1 July 2009	wef 1 April 2010
<b>Light Dues Rate</b>	35p per nrt	39p per nrt	41p per nrt
<b>Tonnage Cap</b>	35,000 nrt	35,000 nrt	40,000 nrt
<b>Voyage Cap</b>	7	9	9

## Objectives

### Strategic aim

The aim of the Northern Lighthouse Board is to deliver the 2011-2016 Corporate Plan as agreed with the Department for Transport; this will require the involvement of every Department and the skill and dedication of every member of staff.

Key objectives, for 2011/2012 are.

- To reduce reliance on the General Lighthouse Fund by ensuring rigorous delivery of the Corporate Plan through 2011/2012, restricting Net Expenditure to the reduced target of £22,815k or less and without compromising the high levels of Aids to Navigation availability as required by international agreement.
- To reduce Running Costs in order to achieve or improve upon the Real Cost Reduction Target of 2.68% pa (3.12% if commercial income/cost is included) for the Plan period 2011 – 2016 agreed with the Secretary of State for Transport.
- To play an active and effective part of the work of the Joint Strategic Board.
- To implement the centralisation of out-of-hours Monitoring to Harwich in accordance with the Atkins Review finding T6 by 30 November 2011.
- To realise the benefits, with the other GLAs, of standardising buoy maintenance and procurement to realise the Atkins Review finding T7 by 31 March 2012.
- To complete the full introduction of the “Golden Rules” by 31 December 2011 and to embed them in the HSE culture of the NLB.
- To complete Phase 5 of the AIS Aids to Navigation programme by 31 March 2012.
- To complete the re-engineering of all four NLB DGPS sites by the contractually agreed date. (See Note 23)
- To plan and begin the introduction of new internal processes as part of the implementation plan for the new Management Information system by 31 March 2012.

## Key performance indicators

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### Aids to Navigation availability

#### Purpose

The key performance indicator used to measure, analyse and monitor the service actually provided to the mariner is 'Aids to Navigation Availability'. This indicator measures the actual availability of AtoNs (eg whether the light is flashing correctly or a buoy is on station) over a 3-year continuous period.

#### Definition, calculation and targets

The method of measurement and the recognised availability standards are set for each category by the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA). They are published in the IALA Aids to Navigation Guide (NAVGUIDE – Edition March 2010).

Availability is measured by dividing total time (i.e. the sum of the total number of hours in a year multiplied by the number of Aids to Navigation in each category) into the difference between total time and the number of hours that the Aids were not available to the mariner. This calculation is then expressed as a percentage. Each of the physical Aids to Navigation operated is allocated a category and each category has an availability target:

#### **Category 1 Availability Target 99.8%**

An Aid to Navigation that is considered to be of primary navigational significance. It includes the lighted aids to navigation and racons that are considered essential for marking landfalls and primary routes.

#### **Category 2 Availability Target 99.0%**

An Aid to Navigation that is considered to be of navigational significance. It includes lighted aids to navigation and racons that mark secondary routes and those used to supplement the marking of primary routes.

#### **Category 3 Availability Target 97.0%**

An Aid to Navigation that is considered to be of less navigational significance than Category 1 and 2.

#### Source of data

The performance data is provided from the monitoring software.

#### Performance

See Section “Aids to Navigation Availability” on pages 40.

#### Changes to data or calculation

There have been no changes to the data or method of calculation.

## Running Costs

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### Purpose

This indicator measures the annual running costs of the Board on a year-to-year basis on a normal cash basis and also adjusted to constant prices by use of the Retail Price Index - All Items.

### Definition, calculation and targets

Running Costs are defined as pay and overhead costs, including travel & subsistence and redundancy costs. The costs are measured as “Running Costs” ie the costs actually incurred and “Running Costs at Constant Prices” ie the costs after adjustment for the change in the Retail Price Index - All items.

### Source of data

The source of the data is Note 5 to the Accounts and the Retail Price Index – All Items.

## Performance

See Section “Running Costs in cash and constant prices” on page 41.

## Changes to data or calculation

There have been no changes to the data or method of calculation.

## Current and future developments and performance

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### Atkins Review

Following a Government Consultation in early 2009 into proposed increases in Light Dues, the Department for Transport (UK) and the Department of Transport (Republic of Ireland) jointly commissioned an assessment of the provision of marine aids to navigation around the United Kingdom and Ireland. The engineering consultancy firm, W S Atkins, were appointed in September 2009 to conduct this assessment and, after consultation with the Departments, the General Lighthouse Authorities, the Chamber of Shipping and the shipping industry more generally, Atkins published their Report in March 2010. The Report made 52 separate recommendations concentrating on the running of the GLAs, the funding by the General Lighthouse Fund of the Commissioners of Irish Lights and the Light Dues charging regime.

Considerable progress has been made throughout the year to deliver on the recommendations under the leadership of the Joint Strategic Board which was itself a recommendation of the Review. Most of the recommendations which are within the competency of the GLAs have either been delivered or are close to being so; in particular it has been agreed to centralise out-of-hours monitoring onto Harwich, to reduce spare capacities in the buoy yards and to establish an RPI-X Running Costs discipline into our financial planning.

### AtoN Review

Following publication of the Tri GLA 2010 AtoN Review on 12 May 2010 implementation of the changes recommended have started to be initiated.

Lights identified for closure in Caithness and on the Isle of Man have been extinguished. Seven buoy stations have been discontinued. A new buoy station established and three beacons lit. Work continued on planning for changes identified which fall within the Corporate Plan period. The AtoN review also identified a number of major lights the long term future of which NLB wished to consider. This assessment work commenced March 2011.

### Head Office Review

The Assessment of the provision of marine aids to navigation by W S Atkins supported the NLB's position that continued occupancy of its Head Office in George Street, Edinburgh, is the best approach to its accommodation requirements in the current economic climate. It recommended that NLB should seek to maximise the cost effectiveness of this position while continuing to consider options for alternative suitable, lower cost accommodation in the medium term. This echoes the work carried out by the Board when assessing the future of the George Street occupancy which determined, as recognised by the Assessment, that continued occupancy presented the most cost effective alternative, at least for the time being.

The first phase of the George Street Refurbishment Project (a feasibility study) was completed in early 2009, but further work was suspended while the Assessment was underway. Further work has remained suspended while the current financial climate continues, but a minor study is underway to identify any short term repair or improvement work which needs to be carried out.

### Monitoring

Recommendation T6 of the Atkins review stated:-

*“The GLAs should prepare a business case considering the costs and benefits of centralising AtoN Monitoring and Control, subject to the key practical, technical and governance issues being identified and resolved.”*

A tri-GLA team undertook a review of monitoring across the GLAs considering hardware, operational considerations, statutory role, staffing etc. They recommended:-

*“Provide a simplified high level (critical) alarm mimic out of hours to a Monitoring and Control Centre to undertake monitoring NTM issue and wreck response initiation.”*

Based on this recommendation and following approval by the NLB Managing Board preparations are being made to create an out of hours monitoring centre based in Harwich with week day only cover in Edinburgh. This will result in NLB monitoring staff being reduced from five to one.

## **E Navigation**

The Board has continued to contribute to the development of eNavigation through involvement with the UK eNavigation Steering Group and IALA both of which feed into International Maritime Organisation (IMO). The key building blocks of GNSS backup, secure and reliable communications, and secure and reliable charting and chart displays are developing but universal carriage remains some way in the future. NLB with its partner GLAs are contributing with the first of these building blocks through the pan European trial of eLoran. Whilst eNavigation could cause a significant change in the AtoN requirements around the Scottish coast this may remain some years away. NLB will continue to adjust our provision through successive AtoN reviews as the transition occurs.

## **Commercial Work**

Financial year 2010/2011 remained a difficult trading year with North Sea market spot rates being depressed and day rates of sub £10K being the norm. These rates being below the operating costs of NLB vessels and with an oversupply of vessels in the first half of the year lead to negligible work in this previously rewarding sector. Notwithstanding this, NLB with the exception of Forth, Clyde and Ministry of Defence (MOD) dominates the Local Lighthouse Authority (LLA) and third party navigation buoy hire and contract work in Scotland. This remained rewarding with new business from renewable and other research equipment deployment and guard

buoy work along with a successful tendering for Scottish Water AtoN maintenance saw a growth in this sector ideally suited to NLV Pole Star. There was a full program of cruise ship berthing activity at Oban with a repeat expected in 2011/12.

Oil and Gas industry decommissioning work showed a decline as a consequence of decommissioning projects being put on hold in a tight market but useful ground work for when projects are activated was laid.

NLB contributed to income shown in Trinity House accounts to the value of £461K gross, a £372K after costs contribution to the GLF. This work being the charter of NLV Pharos for the deployment, maintenance and recovery of UK Met Office ODAS buoys and moorings in an area extending from west of Shetland to west of Brittany.

NLB has partnered with the Maritime and Coastguard Agency (MCA), Scottish Association for Marine Science (SAMS), Department of the Environment Northern Ireland, Agri-Food and Biosciences Institute (AFBI) and Geological Survey of Ireland (GSI) in a successful Interreg bid for coastal EU funded hydrography work for work in 2011 to 2013.

## **Automatic Identification System (AIS)**

The Board has continued to roll out small tranches of AIS AtoN, in the last 12 months 4 units were deployed bringing the total AIS AtoN in NLB waters to 25. AIS is becoming more cost effective. As manufacturers have realised the potential market, bespoke units are no longer necessary, integrated units can now be procured for buoyage/beacons at a cost of approx £5K.

AIS AtoN are a key component of e-Navigation. In the longer term secure and reliable broadband delivered by satellite or in coastal waters by 4G mobile communications coverage is envisaged. It will deliver to the mariner a continuously updated electronic chart which communicates AtoN status, navigational warnings etc. This though is universally some years away. AIS AtoN fills the gap with respect to AtoN status communication by allowing confirmation of position (in the case of buoys) and light functionality to be broadcast and displayed on ECDIS and or radar. It also allows the physical world to be linked to the electronic which is becoming more and more the focus of the modern navigator.

## Capital Investment

As part of the Board's business planning process a long-term capital investment programme is prepared. The main element of the programme is capital investment in the lighthouse estate where individual projects are assessed for inclusion on the navigation and engineering importance of the project. Other elements of the plan cover investment on buoyage, ships, plant & equipment and vehicles. All projects included in the plan are assessed on, strategic impact, economic rationale, financial affordability and achievability.

## Northern Lighthouse Heritage Trust

The Northern Lighthouse Heritage Trust was incorporated on 18 September 2009 and registered as a charity on 24 September 2009 with the Office of the Scottish Charity Regulator. The Heritage Trust's aim is to take ownership of and responsibility for the heritage assets (other than heritable property) owned by the Commissioners and to conserve those assets of most relevance to the history and heritage of the Northern Lighthouse Board. Assets of less significance will be sold and the income from the proceeds will be devoted to the conservation of remaining assets and the promotion of the wider objects of the company. These will include education, raising awareness and the promotion of research about the work and history of the General Lighthouse Authorities. The Heritage Trust will be able to develop relationships with other heritage organisations to display these artefacts for the benefit of the public and to enter into other projects to secure and protect lighthouse heritage. On 31 March 2011 the Board's collection of silver was transferred to the Northern Lighthouse Heritage Trust - insurance value £96,960.

## Draft Marine Navigation Bill

The Queen's Speech on 6 November 2007 announced the Government's intention to introduce a Draft Marine Navigation and Port Security Bill. The re-titled Draft Marine Navigation Bill was published for consultation on 6 May 2006. The consultation ended on 25 July 2008. The House of Commons Transport Committee has scrutinised the draft Bill and provided a report before the Summer Recess on 22 July 2008. Included in this draft Bill are extended powers over pension provision for the GLAs and commercial work,

changes to the GLAs area of jurisdiction and wreck powers and new enforcement powers against local lighthouse authorities. It is unfortunate that parliamentary time has still not been found to enact the Bill, and the Nairobi International Convention on the Removal of Wrecks 2007, which had originally been attached to the Bill, is now being taken forward separately as a Private Member's Bill.

## International Representation

The NLB is required to operate Safety of Life at Sea (SOLAS) in accordance with International standards and recommendations. In the case of AtoN provision these are set by International Association and Marine Aids to Navigation and Lighthouse Authorities (IALA). NLB has a close and influential involvement with IALA. NLB staff continue to be leading, or to be closely involved in, work on AtoN Management, eNavigation and AtoN Engineering ensuring along with Trinity House that UK interests are represented in this area.

## Certifications and Awards

NLB continues to be certificated to ISO 9001, OHSAS 18001, ISO 27001 and ISM. Certification to ISO 14001 Environmental Management Systems was achieved during the Autumn of 2010. Maintenance of the Silver Award from Healthy Working Lives (Scotland) following success at the Bronze Award of the then Scotland's Health at Work last year is an ongoing activity.

## Differential Global Positioning System (DGPS) Re-engineering

A contractor has been appointed for the re-engineering of the tri-GLA DGPS System on a joint basis with the Commissioners of Irish Lights and Trinity House. This work will address existing system equipment obsolescence and technical upgrades that are now required to meet the ongoing service provision goals. It involves work on the NLB DGPS sites at the lighthouses at Sumburgh Head (Shetland), Butt of Lewis (Western Isles) and Girdle Ness (East Coast of Scotland) as well as the central Scotland site at Earls Hill (Stirling), that is a multi-user transmitter site. As the system design development by the contractor delays have been encountered and the in service date has been extended. (See Note 23)

## Resources

### Ships

NLV Pharos now four years old, continues to be a safe, reliable and effective vessel undertaking support of engineering project and maintenance work throughout the year. Pharos has also been engaged in statutory and commercial buoy work, ODAS buoy maintenance, local light authority inspection and off-shore installation inspection.

NLV Pole Star, throughout the year, has operated safely, effectively and efficiently undertaking the majority of the Board's statutory and commercial buoy work as well as inspection of third party AtoN. A modest mid life upgrade, to deal with the high levels of noise in parts of the accommodation which occur during vessel working was undertaken. Delivered on budget this has provided a significant improvement in crew comfort and consequential increased vessel operational endurance.

Management and operational control of the vessels is now co-ordinated with partner GLA to provide as efficient as possible joint operational utilisation of the vessels. Benefits of sharing management resources across the GLAs have enabled NLB to significantly reduce ship related shore management staff from 2009 levels.

### Bases

The Oban support base is a key resource in the activities of the NLB. The base is run by a small well trained, multi skilled flexible workforce. More than just a buoy yard, the base provides for: preparation of helicopter loads both of NLB and contractor materials and equipment, NLB principal stores of spares and consumable items, as well as a safe and secure berth for NLB vessels. Engineering Area maintenance staff for the west coast and the engineering support and testing facility also operate from the base. The Base is a key source of income from a full cruise vessel programme, field support of interim AtoN and rigwatcher units, and overhaul of third party AtoN.

Following Atkins recommendation T7 "A comprehensive review of capacity, capability and importance to marine and engineering operations of the four main GLA buoy yards should be undertaken" NLB co-operated in a tri-GLA review of buoy handling facilities across the GLA. This identified a 40% over capacity between the three organisations. Following JSB approval of plans to reduce this to a prudent 10% across the GLAs NLB is co-operating with partner GLAs to get maximum benefit from common standards and procurement as well as planning to reduce staffing by one operative and one senior manager.

### People

The Atkins Review was published in 2010 and throughout the year work progressed to implement actions recommended in the report. This most significantly included establishment of the Joint Strategic Board, driving forward centralised monitoring across the GLAs and the rationalisation of the GLAs' Buoy yards. Regular communication from the Chief Executive and Chairman has minimised fears of staff, particularly loss of NLB's identity through centralised monitoring. The restructuring of the Pay System entered its final year of realisation and the Pay Remit was approved earlier than in previous years. The on-going requirement to reduce the Board's costs has been one of the Board's priorities and there was also an excellent response to the Board requesting ideas from staff on how costs could be reduced further.

### Sick Absence

	2010/11	2009/10
Total number of days lost due to sickness	1,429	2,030
Average number of days lost per employee	7.47	10.39

### Disabled employees

The policy of the Board towards the employment of disabled people is that a disability is no bar to recruitment or advancement. However, the nature of the duties at lighthouses and ships impose some limitations on the employment of disabled staff. When dealing with employee absence, compliance with the Equality Act is ensured by always seeking expert advice through our Occupational Health Service.

## Equal opportunities

The Board is an equal opportunity employer and at every stage of recruitment, staff transfer and promotion, carefully ensures that the selection processes used in no way give any preference on the basis of gender, age, race, disability, sexual orientation or religion.

## Employee involvement

The Board is committed to effective communications, which it maintains through formal and informal briefings, the Board's magazine ('The Journal'), newsletters and electronic media, including its Intranet service.

Consultation with employees is undertaken through the recognised Trade Unions and various committees which cover all staff. The Chief Executive also chairs a Staff Council which meets four times a year.

Employees are informed of matters of concern to them; they are consulted frequently and regularly so that account may be taken of their interests. In February 1998 the Board undertook its first Staff Attitude Survey and the results from this, and the subsequent surveys, are used as a key part of the consultation process. In 2010/2011, as in previous years, the Chief Executive held general staff meetings to develop items for incorporation in the Board's strategic objectives and to ensure openness and accountability.

## Human Resources Policies

The Human Resources section continues to review and create HR policies which both ensure compliance with employment law along with supporting managers and staff in dealing with people issues. During this year new and revised policies have been implemented including absence, recruitment and selection, equality and diversity, family care and performance management.

## Health and Safety

Throughout the years the Board has continually developed, implemented and maintained Safety Management Systems covering all areas of the Board's activities. These systems meet the requirements of the OHSAS 18001:2007 Standard and the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM) thus ensuring compliance with relevant statutory obligations. These systems are continually maintained and monitored for compliance and improvement via a dedicated QHSE team.

## Research and Development

Regular inter-GLA contact ensures that industry best practice is adopted, where at all possible, thus enabling the Board to meet its obligations with proportionate, cost effective and pragmatic management controls.

Research and Development is conducted for all three GLAs by the Research and Radionavigation Directorate (R&RNAV) based at Harwich. While R&RNAV continues to concentrate on a wide field of research and to provide advisory and technical services to the individual GLAs, effort has also been given to the promotion of enhanced Loran (eLoran). Despite some uncertainty in the USA over funding, the international tide seems to be turning strongly in favour of eLoran. The GLAs see this as a vitally important terrestrial complement to GNSS and a significant enabler in reducing the number of traditional Aids to Navigation.

## Principal risks and uncertainties

As part of the joint GLA risk management review each of the individual GLA risk registers have been analysed having regard to current best practice to produce 12 risks, which are considered to pose the greatest threat to the GLAs and their stakeholders including the GLF. In this context their stakeholders are seen as:

- the mariner and shipowner
- their staff
- suppliers and customers
- Government / GLF
- society as a whole
- the environment

In compiling the document it was noted that certain other risks would have a significant impact on the General Lighthouse Authorities but posed a lesser threat to the General Lighthouse Fund – for example a change in Government policy regarding responsibility for the operation of the three lighthouse services. It was considered that the GLAs had a duty to challenge any such action, if it were not in the short or long term interest of the mariner. It was also noted that in the event that the GLF were wound up, there would be a pension liability estimated by independent actuarial valuation to be £362M as at 31 March 2011 on an accrued benefit valuation cash equivalent basis, comprising prospective benefits due to active members, deferred pensioners and pensioners. However, the GLAs have received a letter of comfort from the UK Secretary of State to the effect that in the event of there being insufficient money available in the GLF to meet the GLAs' pension liabilities, the UK Parliament would be asked to meet any shortfall. Pension contributions, which total £44M, have however not been formally ring-fenced from operating costs and as such there is a danger that they could be used to meet any large unforeseen expenditure. Although not fully satisfactory, a declaration of contingent pension liabilities is made to Parliament each year and a note acknowledging the liabilities added to the GLF Accounts. On this basis it was considered that pension liabilities, whilst substantial, did not at present represent a significant risk but that the matter should be kept under review, particularly as new GLA employees were now required to pay a pension contribution of 3.5% of their salary.

The risks were grouped in accordance with the UK Risk Management Standard under the four headings of 'Strategic', 'Financial', 'Operational' and 'Hazard', together with the control measures in place to mitigate their effects, following also HM Treasury document 'Management of Risk – A Strategic Overview' known as the 'Orange Book'. More general risk protections and controls are summarised at Annex II of the 'Orange Book'.

### **Strategic Risks**

#### *Pension Funding*

Long Term Funding of "pay-as-you-go" pension arrangements.

### **Financial Risks**

#### *Resourcing*

Reduction in resources for running Lighthouse Services (through pressure on Government from ship owners, review of funding arrangements, change in public spending policy, dock strike, breakdown in light dues system or similar).

### **Operational Risks**

#### *AtoN Provision*

Failure to provide or adequately maintain an aid to navigation with the appropriate characteristics and/or in the correct location. Failure of monitoring staff to react appropriately. Failure to inspect inoperative or incorrectly operating aids to navigation, whether maintained by the GLAs, local ports or offshore industry.

#### *Operational Staffing*

Inability to recruit/retain suitable staff; industrial action taken by staff.

#### *Information Technology*

Major IT System failure. Unavailability of data. Loss of data/corruption of data. Inappropriate use of Internet/Email (Including loss through viruses or hacking).

#### *Corporate Governance & Financial Control*

Inadequate or improper financial and other controls including fraud and improper practice.

#### *Legislation*

Non-compliance with legislation or public policy.

#### *Exploitation of Spare Capacity*

Non-compliance with contractual obligations including those arising from core or commercial activities. (Also a hazard risk)

#### *Technological Change*

Failure to review and adapt or inadequately to implement changes in technology (Also a strategic and hazard risk).

## Hazard Risks

### *Natural Events*

Natural Events leading to wide scale disruption.

### *Health, Safety & the Environment*

Failure to secure the health and safety of employees and third parties.

Accidental damage to the environment, lighthouse or contract helicopter (Temporarily or permanently).

### *Wreck Marking*

Requirement to disperse a wreck where the costs cannot be recovered from the owner at the time.

(Also an operational risk)

## Relationships

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### Department for Transport

The General Lighthouse Fund is administered by the Department for Transport who sponsor the three General Lighthouse Authorities. The relationship between the Board and the Department for Transport is set out in a Framework Document.

### Scottish Government

The work of the Board is a reserved matter under Section 30 of and Schedule 5 to the Scotland Act 1998. However, the Board maintains a close relationship with the Scottish Government as does the Department for Transport under the terms of a concordat. Responsibility for matters relating to Section 34 of the Coast Protection Act 1949 has been devolved to the Scottish Government (replaced by Marine (Scotland) Act licensing process in April 2011). The Board are consulted and advise the Scottish Government on these applications.

### Isle of Man Government

The work of the Board also covers the Isle of Man and as a result the Board has a relationship on aids to navigation matters with the Department of Transport of the Isle of Man Government.

## Other General Lighthouse Authorities

The Corporation of Trinity House (England, Wales, Channel Islands and Gibraltar), the Commissioners of Northern Lighthouses (Scotland and the Isle of Man) and the Commissioners of Irish Lights (the whole of Ireland) are the General Lighthouse Authorities (GLAs) for the British Isles.

A Joint Strategic Board was established as a consequence of the Atkins Review (see above). The Board consists of the Secretary of State's nominated Non Executive Directors, Chairmen and Chief Executives of all three GLAs. Replacing the earlier Joint Consultative Group, the JSB has been directed to drive the coordination of tri-GLA activities and programmes and to realise the savings that will accrue. In its first year, the JSB had led on the implementation of the Atkins Review and, in addition to delivering on the recommendations within their purview, have also held the two Departments for and of Transport to deliver on theirs.

## Users

The Joint User Consultative Group (JUCG) was formed in 1988 comprising representatives of the three GLAs and the users of their services to enable a mutual exchange of information on major policy matters of common concern within the field of aids to navigation. The JUCG assists in advising the Secretary of State for Transport on the changing requirements of marine aids to navigation. The NLB holds a Scottish Users' Consultation Group meeting in November each year to exchange views and information with our Scottish and Manx customers.

## Charitable

The Board has a relationship with four charitable organisations:

**Black Bequest** - for former lightkeepers and their dependents

**Commissioners of Northern Lighthouses 2000 Trust** - to support the training of Merchant Navy Officer Cadets

**The Northern Lighthouse Heritage Trust** - supporting the preservation and conservation of lighthouse heritage

**The Museum of Scottish Lighthouses** - preserving the identity and social history of Scotlands lighthouses

## Financial position

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### Source of finance

The Board is financed by advances made by the Department for Transport from the General Lighthouse Fund whose principal income is from Light Dues levied on shipping using ports in the British Isles. These advances, based on the annual cash requirements of the Board, finance both Revenue and Capital Expenditure and are credited as Income in the Accounts of the Board.

In addition, the Board has sundry receipts in the form of buoy maintenance, external contract, use of the berth at NLB Oban, work and property rents together with the proceeds from the sale of assets becoming surplus to requirements. All proceeds are transferred to the General Lighthouse Fund.

### Capital structure

In order to comply with the requirements at the time of Financial Reporting Standard 17 (FRS17) a pension liability was created and the Pension Reserve was written back to the Accumulated Reserve. This was implemented in 2003/2004.

A Government Grant Reserve has been created with grant receipts for capital projects.

### Going Concern

The Commissioners' business activities, together with the factors likely to affect its future development and position, are set out in the Management Commentary section of the Commissioners' report on pages 16 to 19.

The Commissioners are expecting to continue to draw down funds from the General Lighthouse Fund in line with spending plans agreed with the Department for Transport.

The Commissioners, together with the other General Lighthouse Authorities, are involved in regular discussions with the Department for Transport and the Lights Advisory Committee (representing ships and ports industries) on spending plans, the General Lighthouse Fund and the light dues rates charged on commercial shipping using UK and Irish ports. The Commissioners have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the General Lighthouse Fund to continue as a going concern and to fund the Commissioners' activities.

The Commissioners have particularly noted:

- Because of its powers and duties under public law, the Board assumes responsibility for positive discharge of the United Kingdom Government's obligations under the Safety of Life at Sea Convention 1974 (Chapter V, Regulation 13) for the provision and maintenance of aids to navigation within its area of jurisdiction.
- The undertaking given by the Secretary of State that light dues rates will be set at a rate to ensure sufficient income is generated to meet pension liabilities as they fall due.
- The Letter of Comfort provided by the Secretary of State giving an assurance that in the event of insufficient funds being available in the General Lighthouse Fund to meet pension payments as they fall due then the Department for Transport will request funds from Parliament.
- The undertaking provided by the Secretary of State to Lombard Business Leasing Limited and Williams & Glyn's Leasing Company Limited that the funds will be provided to the Commissioners to meet the bi-annual lease payments for NLV Pole Star and NLV Pharos as they fall due.

On the basis of their assessment of the Board's financial position and of the enquiries made of the Department for Transport, the Commissioners have a reasonable expectation that the Northern Lighthouse Board will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Pension Liability

There is a substantial deficit on the Board's pension scheme and this is reflected in the Accounts. The total liability, which was recognised on the Statement of Financial Position for the first time in 2003/2004 amounts to £78M as at 31 March 2011 - see Note 17 Pension Liabilities. As noted in the Accounts the Department for Transport will seek to ensure that annual revenue into the General Lighthouse Fund will be sufficient to meet pension liabilities as they fall due. The liability is also covered by a letter of comfort from the Department for Transport. This letter of comfort is very valuable and could reasonably be considered to provide the security to the members of the Scheme that assets held separately to specifically meet pension benefits would give. In fact, it goes further than this as it effectively also underwrites the investment and life expectancy risks associated with funded pension schemes. However, this guarantee is only a backstop position and there is a clear expectation that the liability will be discharged from the General Lighthouse Fund.

The Board is very concerned with the increasing pension liability position and it has, together with the other GLAs and the Department for Transport, addressed a number of issues –

1. Legal advice has confirmed that part of the General Lighthouse Fund, including any contributions paid by members, cannot be protected from general liabilities to provide pension benefits. At 31 March 2010 the actuaries estimate that contributions made by scheme members of £47.4M are held within the General Lighthouse Fund and are therefore unprotected. The Board, as an employer, finds this position unacceptable although it understands the restriction is due to primary legislation.
2. The actuaries were commissioned to complete a long-term cash flow projection of pension costs. The results of this study have been used to inform the long-term cash forecasts for the General Lighthouse Fund.
3. A study is underway to consider the establishment of a new funded pension scheme that would be open to new entrants. This would have the benefit of transferring the pension liability over time from the General Lighthouse Fund to a separately managed pension fund.
4. Reviewing areas for potential changes to primary legislation to meet the changing needs in the best interests of employees and the General Lighthouse Fund.

## Operating Results

The results for the year to 31 March 2011 are contained in the attached Accounts and Notes and show a deficit (including Depreciation) on Revenue Account transferred to the Accumulated Reserve.

	<b>2010/11</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>
Net Expenditure after interest	5,285	-2,589

For 2010/2011 the Board's performance against the Cash Limits set by the Department for Transport is summarised as follows:

	<b>Cash Limits</b>	<b>Actual Expenditure</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Running costs	15,386	13,888	-1,498
Expenditure on behalf of all GLAs	57	21	-36
Other costs	5,554	5,616	62
Capital expenditure	3,565	3,112	-453
<b>TOTAL</b>	<b>24,562</b>	<b>22,637</b>	<b>-1,925</b>

The actual expenditure calculated against these Cash limits is reconciled with the Accounts, prepared on an “accruals” basis, as follows:

	£000
<b>Total expenditure on Statement of Comprehensive Net Expenditure</b>	<b>12,830</b>
Adjustments to reconcile with Running Costs	
Deduct expenditure on behalf of all three GLAs	-21
Add back the loss on Sale of property, plant and equipment	-41
Pension costs	4,654
Write-off of stock losses	-1
Annual Leave and TOIL accrual	245
Reversal of Provisions	8
Depreciation	-3,675
Amortisation	-111
<b>Running Costs in Management Accounts</b>	<b>13,888</b>

## Expenditure on Property, Plant and Equipment

During the year to 31 March 2011 the Board’s expenditure on tangible fixed assets was :-

	2010/11 £000	2009/10 £000
Land	4	0
Buildings	970	369
Dwellings	0	0
Ancillary craft	0	0
Tenders	444	215
Buoys	70	71
Information Technology	6	29
Plant & Machinery	371	552
Furniture and Fittings	0	0
Payments on Account & Assets under Construction	1,217	866
	<b>3,082</b>	<b>2,102</b>

The Accounts Direction provides that fixed assets shall be stated at historic cost less depreciation. During 2010/2011 the Board obtained independent valuations for the Headquarters building and the operating base at Oban. These valuations were completed by Graham and Sibbald, Chartered Surveyors.

The differences between the open market value and the net book value are as follows:

	Market Value £000	Net Book Value £000	Difference £000
NLB Edinburgh	3,295	233	3,061
NLB Oban	890	3,374	-2,484

Former Lightkeepers’ houses that are retained as holiday cottages are treated as investment properties for the purposes of International Accounting Standard 40 (IAS 40) and are included in the Accounts at Open Market Valuation.

## Cash position and liquidity

### Cash funding through the GLF Imprest System

The Board relies primarily on advances from the General Lighthouse Fund for its cash requirements and is therefore not exposed to significant liquidity risks although it is dependent on the liquidity of the General Lighthouse Fund.

	2010/11 £000	2009/10 £000
Cash withdrawn from the General Lighthouse Fund	22,545	21,875

### Finance Leasing Arrangements

There is exposure on the finance leases for the ships to a change in the main rate of Corporation Tax. During the setting up of the finance lease for NLV Pole Star, the Board evaluated the option of eliminating this exposure. However, it was found that the financial risks were not significant. This option was not used for the lease for NLV Pharos.

### Post Statement of Financial Position Events

There is one event that has occurred since 31 March 2011 and before the date of approving the Accounts. This relates to the Joint-GLA DGPS Re-engineering Project. The Project Board met with the contractor on 11 August 2011 and informed them of an intention to terminate the contract following unsuccessful Factory Acceptance Tests. This was followed up in writing on 15 August 2011. There followed a 21 day standstill period which expired on 5 September 2011. The contractor has repodned and the contract now provides for arbitration. See Note 23.

### Payment of creditors' policy

The Board seeks to adopt the conventions within the British Standard BS 7890, 'Method for achieving good payment performance in commercial transactions' which are reflected within the Board's internal practices.

Payment of all creditors, accounts are arranged by the date stipulated within the contract or other agreed terms of credit. Exceptions to this are as follows:

1. Payment within a shorter timescale where a discount may be available;
2. Where there is a genuine dispute in respect of the invoice concerned. In all such cases the supplier is immediately informed of the details of the query and that the payment will be withheld pending resolution.

Suppliers are informed of our policy via a supplementary notice within contracts and are asked to provide any comments on this issue to the Commercial Manager.

The proportion which the amount owed to trade creditors at 31 March 2011 bears to the amount invoiced by suppliers during the year equated to a 23 days proportion of 365 days.

### Audit

The accounting records of the Commissioners of Northern Lighthouses are examined by the UK Comptroller and Auditor General prior to consolidation in the accounts of the General Lighthouse Fund. The General Lighthouse Fund Accounts are formally certified by the UK Comptroller and Auditor General under the terms of Section 211 of the Merchant Shipping Act 1995 and Section 3 of the Exchequer and Audit Departments Act 1921, as amended by the National Audit Act 1983. There is no provision for a separate audit certificate to be appended to these accounts.

### Remuneration Report

#### Composition

The Board's Remuneration Committee is made up of four Commissioners who have no personal financial interest, other than as Commissioners, in the matters to be decided, no potential conflicts of interest arising from cross-directorships, and no day-to-day involvement in running the Northern Lighthouse Board other than as members of the Board of Commissioners and the Managing Board.

The Committee consults the Chief Executive about its proposals, other than in relation to his own remuneration, and has access to professional advice from inside and outside the Board.

Arrangements are in place for the Remuneration Committee to ask for and receive legal advice from the Board's solicitor. The Committee has used external advice to provide comparison pay information and to recommend new structures.

## Background

The remuneration of the Chief Executive and Directors is determined by the Remuneration Committee now consisting of the Chairman and Vice Chairman of the Board and two other Commissioners, under powers delegated by the Board of Commissioners.

The current pay structure was implemented with effect from 1 April 2004 following a review by a firm of external consultants. The new structure was agreed by the Department for Transport.

## General

The creation of long-term effectiveness depends on the talents, contribution and commitment of the Chief Executive and Directors (the "executive directors"); so the Board must be able to attract and retain people of high quality. It is essential that the remuneration structure should be competitive with those of comparable organisations.

## Pay Approach

The remuneration of Executive Directors was recalibrated in 2004 in the light of consultant advice against the following criteria:

- job weight
- market pay comparisons
- performance

All Directors have a base pensionable salary which is annually reviewed, and in addition can earn a non pensionable and non-consolidated performance bonus paid retrospectively in the light of performance in the previous year, as measured against objectives set by the Remuneration Committee.

These objectives reflect both the corporate objectives agreed by the Board for NLB as a whole and the personal contribution which can be made by each Director.

## Executive Directors' Pensions

The Executive Directors are members of the Northern Lighthouse Board Pension Scheme which is an unfunded defined benefit scheme. The following table show the cash equivalent transfer value (CETV) of the director's pension benefits accrued at the beginning and the end of the reporting period. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total pensionable service in the Northern Lighthouse Board Pension Scheme, not just their current appointment. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The table shows the real increase in the value of the CETV. It takes account of the increase in accrued pension due to inflation and contributions paid by the director and is calculated using common market valuation factors for the start and end of the period.

	2010/11			2009/10		
	Salary	Bonus	Benefits in Kind	Salary	Bonus	Benefits in Kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Roger Lockwood	85-90	5-10	0	85-90	5-10	0
Douglas Gorman	75-80	5-10	0	75-80	5-10	0
Phillip Day	75-80	5-10	0	75-80	5-10	0
Moray Waddell	75-80	5-10	0	75-80	5-10	0

	Accrued pension and Lum Sum at Real increase in pension		CETV at 31 March	CETV at 31 March	Real increase in	Employer contribution to
	age 65 as at 31/3/11	and Lump Sum at age 65	2011	2010	CETV	partnership pension
	£000	£000	£000	£000	£000	account
Roger Lockwood	5-10	0-2.5	145	117	23	Nearest £100 0
Douglas Gorman	15-20/50-55	0-2.5/2.5-5.0	372	349	13	0
Phillip Day	15-20	0-2.5	150	156	8	0
Moray Waddell	25-30/50-55	0-2.5/0-(2.5)	378	396	5	0

The actuarial factors used to calculate CETVs were changed in 2010/2011. The CETVs at 31 March 2010 and 31 March 2011 have both been calculated using the new factors for consistency. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

## Service Agreements

Each of the Executive Directors has a Service Agreement which can be terminated by either the Board serving twelve months notice or the Executive Director serving six months notice.

## Remuneration of Commissioners

### Commissioners:

1. elected by the Board under, and subject to, the proviso set forth in Paragraphs 2 and 3 of Schedule 8 to the Merchant Shipping Act 1995 (the "Co-opted Commissioners"); or
2. nominated by the Lieutenant-Governor of the Isle of Man and appointed by the Secretary of State;

Commissioners are paid a basic remuneration per annum and with the exception of the Chairman and Vice-Chairman are eligible for an additional daily payment for each day exceeding 20 days in the year

	£
Basic annual remuneration	9,804
Additional daily payment	490
Chairman's remuneration	19,608
Vice-Chairman's remuneration	13,068
Total amount paid in 2010/11 including National Insurance Contributions	73,025
Total amount paid in 2009/10 including National Insurance Contributions	73,021

Co-opted Commissioners' remuneration is set by the Board as a whole on the advice of the Department for Transport. Remuneration remained unchanged in 2010/2011.

Co-opted Commissioners are appointed for three years but may be re-appointed for further terms up to a normal limit of 10 years in accordance with guidance from the Commissioner of Public Appointments.

Ex-Officio Commissioners hold office for the duration of their qualifying office.

The Chairman of the Northern Lighthouse Board in 2010/2011 was a co-opted Commissioner and was therefore paid. However, the Vice-Chairman was an Ex-Officio Commissioner and was unpaid.

Commissioners are not members of the Northern Lighthouse Pension Scheme and are not entitled to receive compensation for loss of office. Commissioners are entitled to reclaim travel and subsistence costs at the same rates and under the same regulations that apply to employees.

The remuneration of the Commissioners is analysed as follows:

	2010/11 £	2009/10 £
Mike Close	9,804	9,804
John Ross	9,804	9,804
Robert Quayle	9,804	9,804
Captain George Sutherland (to 31 July 2009)	0	3,268
Alistair Whyte	9,804	9,804
Sir Andrew Cubie	19,608	19,608
Alistair Mackenzie (from 1 August 2009)	9,804	6,536



**The Northern  
Lighthouse  
Board  
Headquarters,  
84 George  
Street,  
Edinburgh.**

# Statement on Internal Control

## Scope of Responsibilities

As Chief Executive I have responsibility for maintaining a sound system of internal control that supports the achievement of the Northern Lighthouse Board's policies, aims and objectives whilst safeguarding the public funds and assets for which the Chief Executive is personally responsible, in accordance with the responsibilities assigned in Managing Public Money.

My responsibilities as Chief Executive are set out in the Commissioners' Handbook.

As Chief Executive I also have the responsibility to act as the Accounting Officer for the Northern Lighthouse Board. The Accounting Officer for the General Lighthouse Fund has delegated Accounting Officer responsibility to me in a letter dated 4th February 2010. I understand that the Accounting Officer for the General Lighthouse Fund will rely on my statement on internal control in preparing the Statement of Internal Control for the General Lighthouse Fund. I have also been given accounting responsibilities by the Board of Commissioners as they discharge their responsibilities under the Merchant Shipping Act 1995.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Northern Lighthouse Board for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The risk management process is led by the Board of Commissioners. The Board has approved a process for the identification, assessment and management of key business risks.

## Capacity to handle risk

### Leadership

### Risk management policy

The General Lighthouse Authorities' (GLAs) policy on risk management is to promote a culture of risk awareness and responsibility within their respective organisations at all levels. The authorities identify, evaluate, control, monitor and review the risks which may adversely affect delivery of their statutory duties and corporate objectives as GLAs or threaten them with prosecution, loss of reputation, legal liability or financial loss. Where appropriate additional controls may be put in place to reduce those risks further.

The GLAs' policy is to transfer, where possible, risks which are assessed as medium to large through insurance where it is economic to do so, having regard to the amount of indemnity offered and previous losses. Risks are tolerated where the cost of transfer is disproportionate to the benefit gained or they cannot be transferred, such as in the case of fines and punitive damages. Risks are treated through internal control where possible to contain them to acceptable levels. Internal control mechanisms include the adoption of sound codes of corporate governance, an ongoing awareness of public affairs, accreditation to internationally recognised quality standards, staff training and robust business continuity and emergency response plans. Occasionally, the risk response may be to terminate an activity.

#### **Description of responsibilities**

The Board of Commissioners decides policy and provides the strategic direction for the Northern Lighthouse Board.

The Managing Board reviews progress on the achievement of aims and objectives and to maintain operational efficiency.

The Audit & Risk Committee monitors the effectiveness of internal control and reports on its work to the Board of Commissioners.

The Head of Internal Audit, to standards defined in the Government Internal Audit Standards, agrees an Audit Plan with the Audit & Risk Committee and then through a programme of reviews gives an independent opinion on the adequacy and effectiveness of the systems of internal control together with recommendations for improvement.

The Directors' Group, led by the Chief Executive, is responsible for reviewing the 12 business risks and the controls in place. It reports its findings to the Audit & Risk Committee.

#### **Staff training**

##### **Senior management accountability**

Each of the twelve Business Risks is the responsibility of one of the Chief Executive, a Director or a Senior Manager. That person acts as "Risk Owner" and leads the review at the Directors' Group meeting.

##### **Risk management training**

The following training has been implemented that impacts on risk management:

Bribery Act 2010  
Information risks  
Managing Risk of Financial Loss Toolkit

#### **Others**

##### **Independent review**

The Head of Internal Audit conducted a review of risk management in March 2008 with a follow-up audit conducted in July 2009. The findings and recommendations were reported to the Audit & Risk Committee on 11 April 2008 and 22 July 2009 respectively. The recommendations made have been fully implemented.

##### **Risk management maturity**

The three GLAs regularly review and exchange best practice on risk management through the Inter GLA Committee structure.

The GLAs conduct a triennial risk review. This review and the resulting recommendations and actions are discussed with key stakeholders through the Lighthouse Finance Committee. The review includes an assessment by external risk management consultants.

The process involves a timetable for the committees of the Board and the Chief Executive and Directors to review and update the assessment of these business risks throughout the year and then to report to the Board on these reviews. At each meeting of the Directors' Group one of the 12 Business Risks is reviewed. All 12 Business Risks are reviewed in a Financial Year. The outcomes of these reviews are documented and changes are made to the risk assessment. The Audit & Risk Committee meet four times a year and at each meeting it considers all the reviews completed by the Directors' Group since its last meeting. Progress on implementing the recommendations is monitored by the Audit and Risk Committee.

## **The risk and control framework**

### **Risk management framework**

The risk management framework consists of identified risks, the consequence to the Board if the risk materialises and the control measures in place. It also includes a risk rating of the risk materialising if controls were not in place and a second rating based on controls being fully functioning. The responsibility for each identified risk is allocated to a Director or senior manager. Risks are regularly reviewed throughout the year. The Audit and Risk Committee also invites managers to discuss risk management issues at committee meetings.

### **Risk identification, evaluation and control**

Risk management forms an integral part of the GLAs' strategic management. This overall strategy is to:-

- to identify significant risks against key organisational aims and objectives within a defined process so that each element or level of risk identification fits within an overall framework;
- to assign ownership of organisational risks at a strategic level;
- to evaluate the significance of those risks using recognised standards;

- to respond effectively to risk through the use of controls, risk transfer and risk financing mechanisms;
- to review and report on those risks against the GLAs' unique nature and funding regime and where appropriate put in place additional measures to further mitigate the impact of any residual risk;
- to ensure that their risk management strategy is operating effectively;
- to embed risk management as an intrinsic part of the GLAs' organisational processes.

### **Risk tolerance/ "risk appetite"**

The GLAs will normally only tolerate a risk after the application of controls and treatment so that the overall residual risk level is brought within acceptable parameters. The "risk appetite" of the GLAs, particularly in financial terms, is different to both private companies and government / public sector bodies due to their unique ring-fenced funding regime and the resources available to finance loss.

The risk appetite for hazard risks, such as health & safety and the environment is generally protective in line with that of the public sector in recognition of the far-reaching stakeholder impact arising from a failure in these critical areas. Conversely, where there is an economic benefit in, for example, the exploitation of a commercial opportunity a more pragmatic stance is adopted leading to a somewhat greater risk appetite but always remaining within a robust framework of loss control.

As a minimum the GLAs seek to ensure:-

- compliance with laws and regulations (domestic and EU);
- the efficient and cost effective operation of their respective organisations;
- effective internal control and corporate governance.

The GLAs' risk response seeks however to achieve an appropriate balance between the potential realisation of risk and the cost of limiting that risk. They consider each risk in terms of whether it should be transferred, tolerated, where it cannot be transferred or the cost of transfer would be disproportionate to the potential benefit gained, treated to an acceptable level, or in exceptional cases discontinued.

### **Embedding risk management**

The management of risk is embedded through the assignment of "risk owners" and the rolling review process use to review the twelve business risks.

### **Evidence of effectiveness**

Assurance about the effectiveness of the Board's risk management strategy is obtained through robust review and reporting mechanisms that report to the Audit and Risk Committee and Board of Commissioners, the Department for Transport, and the Lights Finance Committee. Reporting is carried out by in-house risk managers, internal and external auditors and external consultancy.

### **Changes**

During the Financial Year changes to the assessment of the likelihood of specific events occurring and the control measures in place have been made following the Directors' Group rolling review process. Most of these changes have resulted from the implementation of the recommendations made in the Final Report of the Assessment of the Provision of Marine Aids to Navigation around the United Kingdom & Ireland published in March 2010 – "the Atkins Review" and the financial pressures on the General Lighthouse Fund.

## **Review of effectiveness**

In his annual report the Head of Internal Audit said " *On the basis of the evidence obtained during 2010/11, I am able to provide an overall 'acceptable' assurance rating on the adequacy and effectiveness of the NLB's arrangements for corporate governance, risk management, and internal control. In my opinion, there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control*".

As Chief Executive I have responsibility for reviewing the effectiveness of the system of internal control. This is informed by the work of the internal auditors and the executive managers within the Northern Lighthouse Board who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of Commissioners, the Managing Board and the Audit & Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The key processes in place are:

- the Board decides policy and provides the strategic direction for the Northern Lighthouse Board;
- a Managing Board to review progress on the achievement of aims and objectives and to maintain operational efficiency;
- periodic reports from the Chairman of the Audit and Risk Committee to the Board of Commissioners, concerning internal control;
- regular reports by the Head of Internal Audit, to standards defined in the Government Internal Audit Standards, giving independent opinion on the adequacy and effectiveness of the systems of internal control together with recommendations for improvement;

- regular reviews of compliance with the Framework Document for the General Lighthouse Authorities - last revised July 2008 - that governs the relationship between the Department for Transport and the General Lighthouse Authorities. The results of these reviews are reported to the Audit & Risk Committee;
- a separate statement within the Head of Internal Audit's annual report giving his opinion on the effectiveness of the internal control process; this report, which is reviewed by the Audit and Risk Committee, then forms the basis for a review of Internal Control by the Board of Commissioners;
- regular reviews of the 12 Business Risks at the Directors' Group meetings;
- compliance with the applicable best practice principles set out in HM Treasury's July 2005 Code of Good Practice for Corporate Governance.

### Data handling

During the year we continued to address a number of initiatives to address the various issues that emerged from the number of high profile cases of data losses by Government Departments. We conducted a review in 2008/2009 of these areas to identify any major gaps and these were addressed. We then used the document "Handling Information Risk" as our action plan and assessed where we stood and what, if anything, needed to be done against each category. The immediate actions were:

- revised information security policy
- keeping the Board's Audit & Risk Committee and Head of Internal Audit up-to-date with developments revising the Board's Risk Register to include data handling risks
- refreshed instructions to staff on sending data out
- continuing accreditation to ISO 27001 (Information Security Management)

### Significant internal control problems

There have been no significant internal control problems in the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

Roger Lockwood  
Chief Executive



### Pladda Lighthouse

**Year Established**  
1790

**Engineer**  
Thomas Smith

**Position**  
Latitude 55° 25.512'N  
Longitude 005° 07.113'W

**Character**  
Flashing (3) White every 30 secs

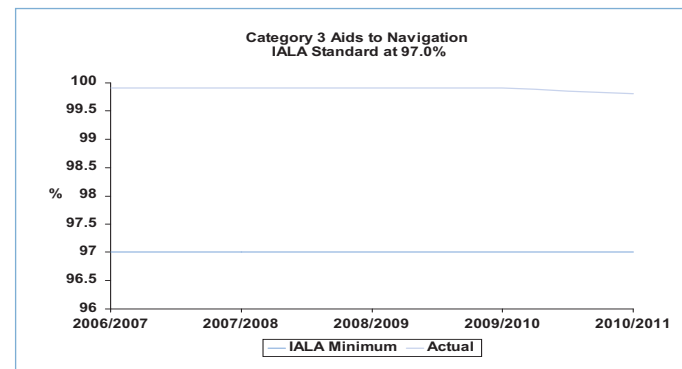
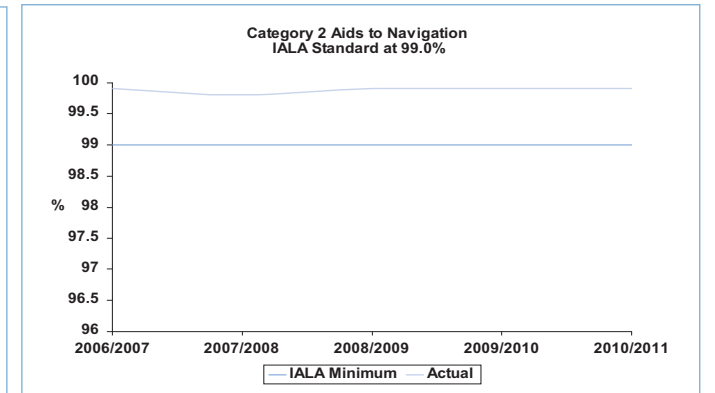
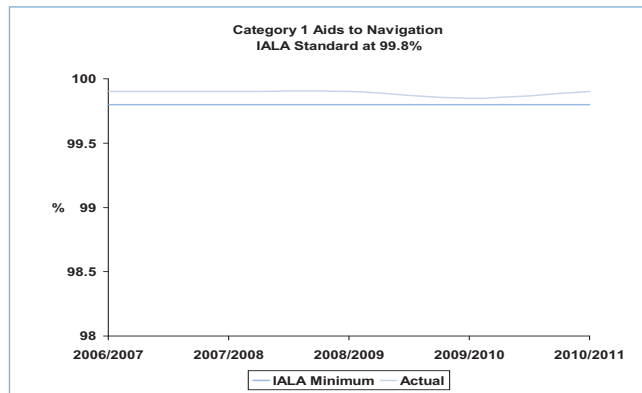
**Elevation**  
40 metres

**Nominal Range**  
17 nautical miles

**Structure**  
White tower 29 metres in height  
there are 128 steps to the top of  
the tower

## AtoN availability compared to International Association of Marine Aids to Navigation and Lighthouse Authorities minima

ATON TYPE	CAT	IALA MIN	2006/2007		2007/2008		2008/2009		2009/2010		2010/2011	
			ACT	DIFF	ACT	DIFF	ACT	DIFF	ACT	DIFF	ACT	DIFF
BUOYS	1		99.8%	-	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%
BUOYANT BEACON	1						99.6%	-0.2%	99.8%	0.00%	-	-
LIGHTS	1		99.9%	0.1%	99.9%	0.1%	99.9%	0.1%	99.8%	0.00%	99.8%	0.00%
RACONS	1		99.9%	0.1%	99.9%	0.1%	99.8%	0.0%	99.8%	0.00%	99.8%	0.00%
<b>TOTAL</b>	<b>1</b>	<b>99.8%</b>	<b>99.9%</b>	<b>0.1%</b>	<b>99.9%</b>	<b>0.1%</b>	<b>99.9%</b>	<b>0.1%</b>	<b>99.9%</b>	<b>0.1%</b>	<b>99.9%</b>	<b>0.1%</b>
BUOYS	2		99.8%	0.8%	99.8%	0.8%	99.9%	0.9%	99.9%	0.9%	100.00%	1.0%
LEADING LIGHT	2						100.0%	1.0%	100.0%	1.0%	100.0%	1.0%
LIGHTS	2		99.9%	0.9%	99.8%	0.8%	99.8%	0.8%	99.8%	0.8%	99.9%	0.9%
<b>TOTAL</b>	<b>2</b>	<b>99.0%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.8%</b>	<b>0.8%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.9%</b>	<b>0.9%</b>
AIS	3										96.9%	n/a
BUOYS	3		99.9%	2.9%	99.9%	2.9%	99.9%	2.9%	99.9%	2.9%	99.9%	2.9%
BEACON	3		100.0%	3.0%	100.0%	3.0%	100.0%	3.0%	100.0%	3.0%	100.0%	3.0%
<b>TOTAL</b>	<b>3</b>	<b>97.0%</b>	<b>99.9%</b>	<b>2.9%</b>	<b>99.9%</b>	<b>2.9%</b>	<b>99.9%</b>	<b>2.9%</b>	<b>99.9%</b>	<b>2.9%</b>	<b>99.8%</b>	<b>2.8%</b>



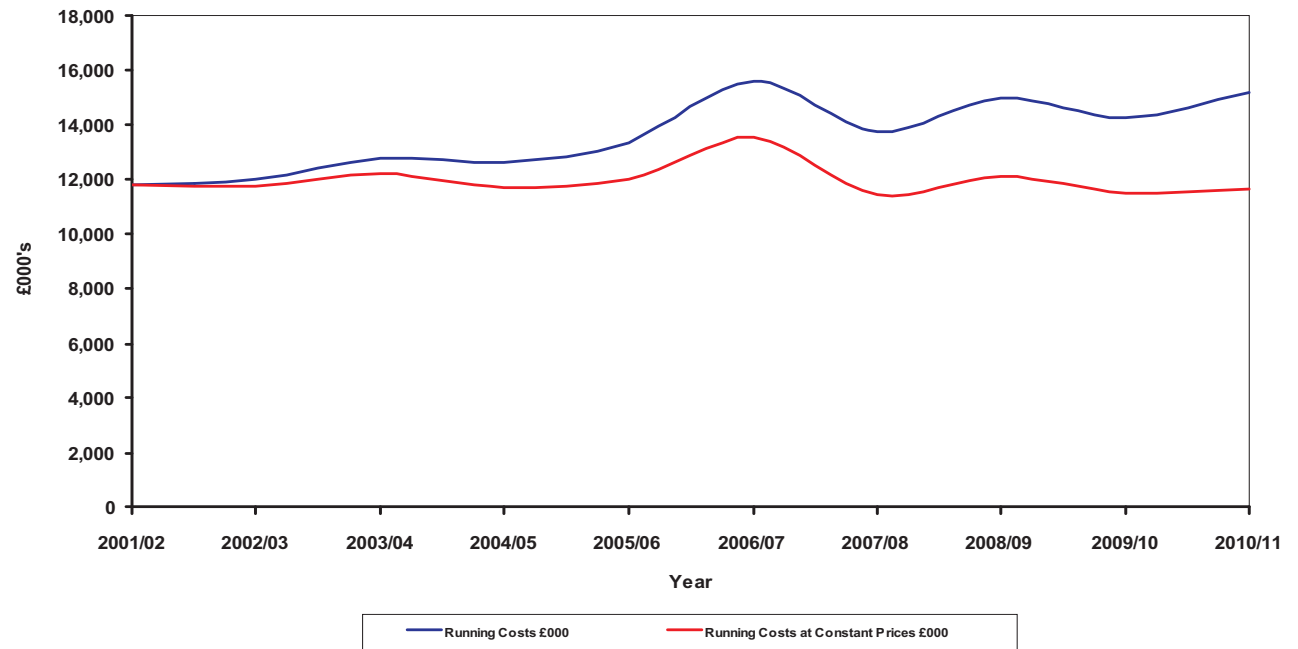


NLV PHAROS

## Running Costs in Cash and Constant Prices

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Running Costs £000	11,814	12,013	12,810	12,647	13,352	15,586	13,746	14,961	14,254	15,192
Variance %		1.68%	6.63%	-1.27%	5.57%	16.73%	-11.81%	8.84%	-4.73%	6.58%
Running Costs at Constant Prices £000	11,814	11,766	12,206	11,687	12,022	13,528	11,458	12,111	11,486	11,663
Variance %		-0.41%	3.74%	-4.25%	2.86%	12.53%	-15.30%	5.70%	-5.16%	1.54%
Average RPI	173.88	177.53	182.47	188.15	193.11	200.32	208.59	214.78	215.77	226.47
Annual Change %		2.10%	2.79%	3.11%	2.64%	3.73%	4.13%	2.97%	0.46%	4.96%

Running Costs on a Cash and Constant Basis





### Lismore Lighthouse

#### Year Established

1833

#### Engineer

Robert Stevenson

#### Position

Latitude 56° 27.333'N

Longitude 005° 36.449'W

#### Character

Flashing White every 10 secs

#### Elevation

31 metres

#### Nominal Range

17 nautical miles

#### Structure

White tower 26 metres high.

Candle Power 71,000

## Statement of Comprehensive Net Expenditure

	<u>Note</u>	2010/11	Restated 2009/10	2009/10
		£000	£000	£000
<b>Expenditure</b>				
Staff costs	4	7,780	7,729	7,724
Depreciation	10	3,675	3,724	3,724
Amortisation	9	111	111	111
Pension cost - current service	18	1,763	1,501	1,592
Pension cost - past service	18	-6,674	86	0
Other expenditure	5	6,175	6,709	6,709
		<b>12,830</b>	<b>19,860</b>	<b>19,860</b>
<b>Income</b>				
Advances from the General Lighthouse Fund		22,545	21,875	21,875
Other income	3	550	490	490
		<b>23,095</b>	<b>22,365</b>	<b>22,365</b>
<b>Net Expenditure</b>		<b>10,265</b>	<b>2,505</b>	<b>2,505</b>
Cost of Capital	1(l)	0	0	1,722
Interest payable/receivable	6 and 7	-4,980	-5,174	-5,174
Revaluation of investment properties	11	0	80	80
<b>Net Expenditure after cost of capital charge and interest</b>		<b>5,285</b>	<b>-2,589</b>	<b>-867</b>
Reversal of Cost of Capital	1(l)	0	0	-1,722
<b>Net Expenditure after interest</b>		<b>5,285</b>	<b>-2,589</b>	<b>-2,589</b>



## Ardnamurchan

### Year Established

1849

### Engineer

Alan Stevenson

### Position

Latitude 56° 43.630'N

Longitude 006° 13.567'W

### Character

Flashing (2) White every 20 Secs

### Elevation

55 metres

### Nominal Range

24 nautical miles

### Structure

Grey granite tower, 35 metres in height. There are 152 steps to the top of the tower.

# Statement of Financial Position as at 31 March 2011

	<u>Note</u>	2011 £000	Restated 2010 £000	2010 £000
<b>Non-Current Assets</b>				
Property Plant & Equipment	10	51,497	52,135	52,135
Intangible Assets	9	213	285	285
Investment Assets	11	1,032	1,032	1,032
Trade and other receivables	14	2	7	0
<b>Total Non-Current Assets</b>		<b>52,744</b>	<b>53,459</b>	<b>53,452</b>
<b>Current Assets</b>				
Assets classified as held for sale	10	0	0	0
Inventories	13	614	585	585
Trade and other receivables	14	559	518	525
Other current assets		0	0	0
Financial assets		0	0	0
Cash and cash equivalents	15	425	116	116
<b>Total Current Assets</b>		<b>1,598</b>	<b>1,219</b>	<b>1,226</b>
<b>Total Assets</b>		<b>54,342</b>	<b>54,678</b>	<b>54,678</b>
<b>Current Liabilities</b>				
Trade and other payables	16	2,979	3,253	3,253
Other liabilities	17	0	0	0
<b>Total Current Liabilities</b>		<b>2,979</b>	<b>3,253</b>	<b>3,253</b>
<b>Non Current Assets plus / less Net Current Assets / Liabilities</b>				
		<b>51,363</b>	<b>51,425</b>	<b>51,425</b>
<b>Non-Current Liabilities</b>				
Provisions	17	2,413	2,460	2,460
Pension Liabilities	18	78,034	88,994	88,994
Other payables	19	18,780	20,049	20,049
Financial liabilities		0	0	0
<b>Total Non-Current Liabilities</b>		<b>99,227</b>	<b>111,503</b>	<b>111,503</b>
<b>Assets less Liabilities</b>		<b>-47,864</b>	<b>-60,078</b>	<b>-60,078</b>
<b>Reserves</b>				
Accumulated Reserve	2	-47,996	-60,225	-60,225
Government Grant Reserve	2	132	147	147
<b>Total</b>		<b>-47,864</b>	<b>-60,078</b>	<b>-60,078</b>

The financial statements on pages 42 and 43 were approved by the Commissioners of Northern Lighthouses on 22 September 2011, and signed on its behalf by:

Chairman

Chief Executive



**Small Isles**  
New Structure

## Statement of Cash Flows for the year ended 31 March 2011

	<u>Note</u>	2010/11 £000	Restated 2009/10 £000	2009/10 £000
<b>Cash flows from operating activities</b>				
Net Deficit after interest		5,285	-2,589	-2,589
Pension Benefits Outflow		-2,998	-3,284	-3,284
Current Service Cost	18	-4,932	1,356	1,356
Loss on sale of assets		41	21	21
Depreciation		3,675	3,724	3,724
Amortisation		111	111	111
(Increase)/Decrease in trade and other receivables		-37	39	39
(Increase)/Decrease in inventories		-28	-91	-91
Increase/(Decrease) in trade payables		-174	-296	-296
Revaluation of Investment properties		0	-80	-80
Use of provisions		-47	226	226
<b>Net cash outflow from operating activities</b>		<b>896</b>	<b>-863</b>	<b>-863</b>
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment		-3,219	-2,013	-2,013
Purchase of intangible assets		-29	-133	-133
Proceeds of disposal of property, plant and equipment		-6	74	74
Proceeds of disposal of intangibles		0	0	0
Loans to other bodies		0	0	0
(Repayments) from other bodies		0	0	0
<b>Net cash outflow from investing activities</b>		<b>-3,254</b>	<b>-2,072</b>	<b>-2,072</b>
<b>Cash flows from financing activities</b>				
Movement in Government Grant Reserve		-15	-14	-14
Pension Financing Cost		3,914	4,034	4,034
Capital element of payments in respect of finance leases		-1,233	-1,163	-1,163
<b>Net cash flow from financing activities</b>		<b>2,666</b>	<b>2,857</b>	<b>2,857</b>
<b>Net cash flow from all activities</b>		<b>308</b>	<b>-78</b>	<b>-78</b>
Net increase/(decrease) in cash and cash equivalents in the period		309	-77	-77
Cash and cash equivalents at the beginning of the period		116	193	193
Cash and cash equivalents at the end of the period		425	116	116



**Captain Eric Smith**  
Master, NLV PHAROS

## Changes in General Lighthouse Fund equity for 2010-2011

	Accumulated Reserve	Government Grant Reserve	Total Reserves
	£000	£000	£000
Balance at 31 March 2010	-60,225	147	-60,078
Release of reserves to the Statement of Comprehensive Net Expenditure	6,944	-15	6,929
Retained Surplus/Deficit	5,285	0	5,285
Balance at 31 March 2011	-47,996	132	-47,864



**Pladda Lighthouse**  
site clearance

# Notes to the Accounts for the year ended 31 March 2011

## 1. Statement of Accounting policies

### (a) Accounting convention

These Accounts have been prepared in accordance with the 2010/11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Board for the purpose of giving a true and fair view has been selected. The Board's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition, these accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Transport.

### (b) Going concern

	£000
Net Liabilities on Statement of Financial Position at 31 March 2011	47,864

This reflects the inclusion of pension liabilities falling due in future years. The Secretary of State for Transport, with the agreement of the Treasury, issued a letter of comfort in December 2001 (Appendix A). The letter states that in the unlikely event of insufficient money being available from the General Lighthouse Fund to pay pension liabilities, the Department for Transport will request funds from Parliament to make the necessary payments.

It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### (c) Pension benefits

Pension benefits are accounted for in line with the requirements of IAS 19 Employee Benefits. All pension assumptions are set out in Note 18.

### (d) Intangible assets and amortisation

Computer software has been capitalised and is amortised on a straight-line basis over the useful economic life of between 3-5 years dependant on the expected operating life of the asset. Intangible assets are shown at cost less amortisation. Amortisation is calculated on a monthly basis and is commenced in the month after original purchase or when the asset is brought into use and is continued up to the end of the month prior to disposal.

## (e) Tangible assets and depreciation

Fixed Assets are shown at depreciated historic cost in accordance with the Accounts Direction. This does not comply with the disclosure requirements of the Financial Reporting Manual, which requires the inclusion of fixed assets at their value to the business with reference to current costs, as it has been agreed that it is impractical to revalue such assets.

Book values have been retained and revaluations have only been undertaken on assets that are surplus to requirements, restating them to open market value.

Depreciation is calculated on a monthly basis and is commenced in the month after original purchase or when the asset is brought into use, and is continued up to the end of the month during which assets are sold. Assets in the course of construction are not depreciated.

All depreciation is charged on a straight line basis having regard to the estimated operating lives and residual values as follows:

CATEGORIES	DEPRECIATION LIVES
<b>Land and Buildings</b>	
Land	Not Depreciated
Lighthouse (building structures)	50 years
Lighthouse improvement	25 years or remaining life if less
Buildings	50 years
<b>Tenders &amp; Ancillary Craft</b>	
Tenders*	25 years or remaining life if less
Tenders (Dry Dock and Repair)	
NLV PHAROS	5 years
NLV POLE STAR	2 years or 3 years depending on dry-docking schedule
Work Boats	10 years
<b>Buoys</b>	
Bodies	25 years or remaining life if less
Solarisation Costs	10 years
<b>Plant and Equipment</b>	
Lighthouses	15 years
Automation Equipment	15 years
Racons	15 years
Radio Beacons	15 years
Depot/Workshops	10 years
Office Equipment	10 years
Vehicles	5 years
Computers - major systems	5 years
Computers - other	3 years
* Tenders held under finance leases	25 years being the expected useful life. The primary lease period is less than this, but a secondary period sufficient to cover the balance is available

## (f) Inventories

Inventories of consumables, moorings and chain, engineering stores and fuel stocks on tenders are valued at weighted average cost in line with the Accounts Direction.

## (g) Research and development

The Board co-operates with other Lighthouse Authorities through the Research and Radio Navigation Committee for major research and development. Direct expenditure incurred through this channel, or on any other research and development activity, is charged to revenue as it is incurred.

## (h) Leasing commitments

Assets obtained under finance leases are capitalised in the Statement of Financial Position and depreciated as if owned. The interest element of the rental obligation is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding at the beginning of the year. The capital element of the future lease payments is stated separately under Trade and Other Payables, both within one year and over one year.

Expenditure incurred in respect of operating leases is charged to Net Expenditure on a straight line basis over the period of the lease. Rentals received under operating leases are credited to income.

## (i) Foreign currency

All transactions in a foreign currency have been converted to Sterling immediately on receipt and are therefore translated at the exchange rate ruling at the date of the transaction.

Any monetary assets or liabilities existing as at 31 March 2011 are translated at the rate ruling at the Statement of Financial Position date.

**(j) Taxation**

The GLA is an exempt body from Corporation Tax under the provisions of Section 221 the Merchant Shipping Act 1995. The GLA is liable to account for VAT on charges rendered for its services and is able to reclaim VAT on all costs under the provisions of the Value Added Tax Act 1983.

**(k) Transactions on behalf of other General Lighthouse Authorities**

The General Lighthouse Authorities generally account for all aspects of their responsibilities as statutory authorities. However, as a result of close co-operation, the GLAs may agree that it is either more economic or practical for one GLA to be responsible and account for the costs of particular areas of work. The costs incurred by the Board on behalf of other GLAs are detailed at note 8.

**(l) Notional Cost of Capital**

In 2009/2010 the Statement of Comprehensive Net Expenditure included a notional cost of capital at 3.5% of the average net assets during the year (3.5% in 2008/09). This amount was reversed after the line showing the surplus or deficit for the year. This notional cost of capital is not included in 2010/2011 and 2009/2010 has been restated.

**(m) Government Grants**

Grants received in respect of eligible expenditure charged to the Statement of Comprehensive Net Expenditure during the year have been included in Grant income.

Grants received in respect of capital expenditure on assets that are depreciated are credited to the Government Grant Reserve and released to the Statement of Comprehensive Net Expenditure by instalments over the useful economic life of the relevant assets.

**(n) Investment properties**

The Board has nine former lightkeepers' cottages that are operated as holiday cottages. It has been agreed that this alternative use is in the best interests of the General Lighthouse Fund through the generation of rental income. However, it also considers that these properties fall within the definition of "Investment Properties" under IAS 40 in that they could be disposed of without affecting the operation of the lighthouse and they are not retained to fulfill the Board's statutory responsibilities.

Open market valuations have been completed in March 2011 at each of these properties by Graham and Sibbald, Chartered Surveyors. These properties are included in the Statement of Financial Position at the open market valuation.

**(o) Provisions**

The Board makes provisions for liabilities and charges in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets where, at the Statement of Financial Position date, a legal or constructive liabilities (ie a present obligation from a past event) exists, the transfer of economic benefits is probable and a reasonable estimate can be made.

**(p) Financial Assets and Liabilities**

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

**Financial Assets**

The Board classifies its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for sale. Such assets are initially recognised at fair value. Where material, they are subsequently measured at amortised cost using the effective interest method.

**Financial Liabilities**

Financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost. Financial liabilities are de-recognised when extinguished.

**Embedded Derivatives**

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is split out and reported at fair value with gains and losses being recognised in the Statement of Comprehensive Net Expenditure. The Board has carried out a review of its contracts and has determined that, as at 31 March 2011, no contracts contained embedded derivatives.

**Determining Fair Value**

Fair value is defined as the amount for which an asset is settled or a liability extinguished, between knowledgeable parties, in an arms length transaction. This is generally taken to be the transaction value, unless, where material, the fair value needs to reflect the time value of money, in which case the fair value would be calculated from discounted cashflows.

**(q) International Financial Reporting Standards adoption policy**

The Board has chosen not to adopt early any new standards or interpretations.

The standard listed below is not yet effective for the year ended 31 March 2011 and has not been applied in preparing these financial statements but will be adopted in subsequent periods:

IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 39 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after January 2013. Initial application of IFRS 9 is expected to have a limited impact.

## 2. Change in General Lighthouse Fund equity for 2010/2011

	Accumulated Reserve	Government Grant Reserve	Total Reserves
	£000	£000	£000
Balance at 31 March 2010	-60,225	147	-60,078
Release of reserves to the Statement of Comprehensive Net Expenditure	6,944	-15	6,929
Retained Surplus/Deficit	5,285	0	5,285
Balance at 31 March 2011	-47,996	132	-47,864

## 3. Other income

	2010/11	2009/10
	£	£
Buoy Rental	196	212
Property Rental	90	100
Other Commercial Income	195	84
Use of berth at NLB Oban	41	37
Sundry Receipts	28	57
<b>TOTAL</b>	<b>550</b>	<b>490</b>

#### 4. Staff numbers and related costs

	2010/11			Restated	2009/10
	Total	Permanently employed staff	Others	Total	Total
	£000	£000	£000	£000	£000
Wages and salaries	6,959	6,825	134	7,173	7,173
Social security costs	565	565	0	551	551
<b>Sub-Total</b>	<b>7,524</b>	<b>7,390</b>	<b>134</b>	<b>7,724</b>	<b>7,724</b>
Other pension costs	0	0	0	0	0
Redundancy costs	255	255	0	0	0
Annual Compensation Payments	1	0	1	5	0
Less recoveries in respect of outward secondments	0	0	0	0	0
<b>Total net costs</b>	<b>7,780</b>	<b>7,645</b>	<b>135</b>	<b>7,729</b>	<b>7,724</b>

	2010/2011			Restated	2009/10
	Total	Permanent Staff	Others	Total	Total
The average number of whole-time equivalent persons employed during the year was as follows:					
Directly Employed	196.9	196.9	0	199.1	199.1
Other	1.9	0	1.9	3.0	3.0
Staff engaged on capital projects	0	0	0	0	0
<b>TOTAL</b>	<b>198.8</b>	<b>196.9</b>	<b>1.9</b>	<b>202.1</b>	<b>202.1</b>

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	40(0)	0(0)	40(0)
£10,000 - £25,000	0(0)	0(0)	0(0)
£25,000 - £50,000	0(0)	0(0)	0(0)
£50,000 - £100,000	0(0)	0(0)	0(0)
£100,000- £150,000	0(0)	0(0)	0(0)
£150,000- £200,000	0(0)	0(0)	0(0)
<b>Total number of exit packages</b>	<b>40(0)</b>	<b>0(0)</b>	<b>40(0)</b>
<b>Total Cost</b>	<b>£5,000/£0</b>	<b>£0/£0</b>	<b>£5,000/£0</b>

## 5. Other expenditure

	2010/11 £000	Restated 2009/10 £000	2009/10 £000
Running Costs	5,672	6,192	6,192
Loss on sale of property, plan and equipment	6	-68	-68
Loss on disposal of property, plant and equipment	35	94	95
Rentals under operating leases	462	491	491
<b>Other Expenditure</b>	<b>6,175</b>	<b>6,709</b>	<b>6,709</b>
Interest charges	4,980	5,174	5,174
PFI service charges	0	0	0
Research and Development expenditure	0	0	0
Non-cash items			
Depreciation	3,675	3,724	3,724
Amortisation	111	111	110
Cost of Capital charges	0	0	-1,722
Provision provided for in year	251	258	258
Unwinding of discount on provisions	0	0	0
<b>TOTAL</b>	<b>15,192</b>	<b>15,976</b>	<b>14,253</b>

## Analysis of running costs

	2010/11	2009/10
	£000	£000
Communications	378	398
Fuel, Water, Heat and Light	367	414
Helicopter Flying	671	792
Information Technology	268	240
Insurance	236	239
Legal and Consultancy Costs	171	327
Other Staff-related Costs	458	487
Others	292	304
Repairs and maintenance	1,660	1,925
Ships' fuel	889	708
Travelling, subsistence and hospitality	744	849
Loss on sale of Property, Plant and Equipment	41	26
<b>TOTAL</b>	<b>6,175</b>	<b>6,709</b>

## 6. Interest receivable

	2010/11	2009/10
	£000	£000
Bank deposits	0	0
Other short-term deposits	4	0
<b>TOTAL</b>	<b>4</b>	<b>0</b>

## 7. Interest payable

	2010/11	2009/10
	£000	£000
Pension financing cost	3,914	4,034
On lease of NLV Pole Star	324	338
On lease of NLV Pharos	746	802
<b>TOTAL</b>	<b>4,984</b>	<b>5,174</b>

## 8. Net expenditure on behalf of all General Lighthouse Authorities

	2010/11	2009/10
	£000	£000
Actuarial support	18	24
Legal fees for the collection of light dues	3	11
<b>TOTAL</b>	<b>21</b>	<b>35</b>

## 9. Intangible assets

	2010/11 £000	2009/10 £000
<b>Cost</b>		
At 1 April 2010	679	645
Additions	29	132
Transfers	10	1
Disposals	0	-100
Impairments	0	0
Revaluation	0	0
At 31 March 2011	718	679
<b>Amortisation</b>		
At 1 April 2010	394	376
Charged in year	111	111
Disposals	0	-93
Impairments	0	0
Revaluation	0	0
At 31 March 2011	505	394
Net book value at 31 March 2011	213	285

## 10. Property, plant and equipment

	Land	Buildings	Dwellings	Ancillary craft	Tenders	Buoys	Information Technology	Plant & Machinery	Furniture and Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>											
At 1 April 2010	88	29,555	0	9	27,868	3,581	494	23,247	0	2,849	87,691
Additions	4	970	0	0	444	70	6	371	0	1,218	3,083
Donations	0	0	0	0	0	0	0	0	0	0	0
Disposals	-4	-247	0	0	-32	0	0	-1,038	0	0	-1,321
Impairments	0	0	0	0	0	0	0	0	0	0	0
Reclassifications	10	313	0	0	51	5	6	729	0	-1,131	-17
Revaluations	0	0	0	0	0	0	0	0	0	0	0
At 31 March 2011	98	30,591	0	9	28,331	3,656	506	23,309	0	2,936	89,436
<b>Depreciation</b>											
At 1 April 2010	12	13,180	0	7	5,671	2,359	305	14,022	0	0	35,556
Charged in year	0	953	0	1	1,254	161	67	1,239	0	0	3,675
Disposals	-2	-247	0	0	-32	0	0	-1,011	0	0	-1,292
Impairments	0	0	0	0	0	0	0	0	0	0	0
Reclassifications	1	-3	0	-1	2	0	0	1	0	0	0
Revaluations	0	0	0	0	0	0	0	0	0	0	0
At 31 March 2011	11	13,883	0	7	6,895	2,520	372	14,251	0	0	37,939
Net book value at 31 March 2010	76	16,375	0	2	22,197	1,222	189	9,225	0	2,849	52,135
Net book value at 31 March 2011	87	16,708	0	2	21,436	1,136	134	9,058	0	2,936	51,497
<b>Owned</b>											
Owned	87	16,708	0	2	1,173	1,136	134	9,058	0	2,936	31,234
Finance Leased	0	0	0	0	20,263	0	0	0	0	0	20,263
On-balance sheet PFI contracts	0	0	0	0	0	0	0	0	0	0	0
Net book value at 31 March 2011	87	16,708	0	2	21,436	1,136	134	9,058	0	2,936	51,497

### Assets held for sale

There were no assets held for sale at 31 March 2011.

## 11. Investment assets

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	2010/11 £000	2009/10 £000
Holiday cottages and Interpretation Centre		
As at 1 April 2010	1,032	952
Additions	0	0
Depreciation	0	0
Revaluations	0	80
As at 31 March 2011	1,032	1,032

## 12. Impairments

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There are no impairments in 2009/2010 and 2010/2011.

### 13. Inventories

	2010/11	2009/10
	£000	£000
Mooring Chain	78	121
Base Stores	91	112
Workshop Stores	268	196
Fuel Oil	177	156
<b>TOTAL</b>	<b>614</b>	<b>585</b>

### 14. Trade and other receivables

	2010/11	2009/10
	£000	£000
Amounts falling due within one year:		
Trade receivables	148	22
Deposits and advances	23	29
Prepayments and accrued Income	184	303
VAT Recoverable	204	164
<b>TOTAL</b>	<b>559</b>	<b>518</b>
Amounts falling due after more than one year:		
Trade receivables	0	0
Deposits and advances	0	0
Other receivables	0	0
Prepayments and accrued Income	2	7
<b>TOTAL</b>	<b>2</b>	<b>7</b>
Prepayments and accrued Income	2	7
<b>TOTAL</b>	<b>2</b>	<b>7</b>

Amounts included above that fall within the Whole of Government Accounting boundary are:

Central Government	211	168
Local Authorities	0	1
NHS Trusts	0	0
Public Corporations	128	4
Bodies external to Government	222	352
<b>TOTAL</b>	<b>561</b>	<b>525</b>

## 15. Cash and cash equivalents

	<b>2010/11</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April 2010	116	193
Net change in cash and cash equivalent balances	309	-77
Balance at 31 March 2011	425	116
The following balances at 31 March were held at:		
Commercial banks and cash in hand	425	116
Short term investments	0	0
Balance at 31 March 2011	425	116

## 16. Trade payables and other current liabilities

	2010/11 £000	2009/10 £000
Amounts falling due within one year		
VAT	0	0
Other taxation and social security	221	209
Trade payables	707	871
Other payables	127	18
Accruals and deferred Income	655	953
Current part of finance leases	1,269	1,202
<b>TOTAL</b>	<b>2,979</b>	<b>3,253</b>
Amounts falling due after more than one year:		
Other payables, accruals and deferred Income	0	0
Finance leases	18,780	20,049
Imputed finance lease element of on-balance sheet PFI contracts	0	0
NLF loans	0	0
<b>TOTAL</b>	<b>18,780</b>	<b>20,049</b>
Amounts included above that fall within the Whole of Government Accounting boundary are:		
Central Government	234	244
Local Authorities	0	1
NHS Trusts	0	0
Public Corporations	0	6
Bodies external to Government	21,525	23,051
<b>TOTAL</b>	<b>21,759</b>	<b>23,302</b>

## 17. Provisions for liabilities and charges

	<b>Redundancy costs £000</b>	<b>Compensation Payts. £000</b>	<b>ACPs £000</b>	<b>MNOFP £000</b>	<b>Total £000</b>
Balance at 1 April 2010	0	13	90	2,357	2,460
Provided in the year	250	0	1	0	251
Provisions not required written back	0	-1	0	0	-1
Provisions utilised in the year	0	-3	-37	-257	-297
Unwinding of discount	0	0	0	0	0
Balance at 31 March 2011	250	9	54	2,100	2,413

Analysis of expected timing of discounted flows

	<b>Redundancy costs £000</b>	<b>Compensation Payts. £000</b>	<b>ACPs £000</b>	<b>MNOFP £000</b>	<b>Total £000</b>
In the remainder of the Spending Review period (to 2012)	250	9	0	0	259
Between 2012+1 And 2012+5	0	0	54	0	54
Between 2012+6 And 2012+10	0	0	0	2,100	2,100
Thereafter	0	0	0	0	0
Balance at 31 March 2011	250	9	54	2,100	2,413

Included in the amounts not expected to be called until after 2012+10 are:

Amounts not expected to be called until the period beginning 2012+50	0	0	0	0	0
Amounts not expected to be called until the period beginning 2012+75	0	0	0	0	0

## 18. Pension liabilities

### Northern Lighthouse Pension Scheme and Northern Lighthouse Compensation Scheme

The pension entitlement of the employees of the Northern Lighthouse Board arises under an internally defined benefit pension scheme. The pension benefits of the Scheme are determined by the Secretary of State under Section 214 of the Merchant Shipping Act 1995. The Secretary of State has determined that the rules of the Principal Civil Service Pension Scheme shall apply. Compensation for premature loss of office is determined by the terms of the Northern Lighthouse Compensation Scheme, operated by direct analogy with the Civil Service Compensation Scheme 1994.

Employees joining after 1 October 2002 could opt to open a Partnership Pension Account, a stakeholder pension with an employer contribution. Employer contributions of

	2010/11	2009/10
	£	£
Partnership Pension Accounts	20,000	12,000

were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

There were no contributions due to the partnership pension providers at the Statement of Financial Position. There were no contributions that had been prepaid at that date.

The Scheme falls within the definition of a "Public Service Pension Scheme" in Section 1 of the Pension Schemes Act 1993 and is not required to be separately funded. The Scheme is therefore operated on a non-contributory basis with the exception of contributions made to provide Widows' and Widowers' pensions and in a number of cases voluntary contributions made by employees for the purchase of added years of service.

The pension payments of the Northern Lighthouse Board, along with the other Lighthouse Authorities, are paid by the General Lighthouse Fund as they fall due on the following basis:-

- (i) Payments to pensioners/widows/widowers/children for the financial year under review;
- (ii) Lump sums paid to new pensioners and preserved lump sums coming into effect during the year;
- (iii) Annual compensation payments paid to those members who are made redundant in advance of minimum retirement age (60);
- (iv) Accrued benefits due to employees who leave and who opt to have such benefits transferred to another pension scheme;
- (v) Injury benefits;
- (vi) Refunds of widows'/widowers' pension contributions at leaving and/or age 60/65;

Reduced by:

- (vii) Contributions made by employees during the year in respect of widows/widowers and added years;
- (viii) Accrued benefits transferred from other pension schemes in respect of new employees.

The General Lighthouse Authorities obtain professional actuarial valuations at 3 yearly intervals and updated each year for IAS 19 purposes. The last valuation was completed in 2011 valued as at 31 March 2011. The accumulated liability for the Northern Lighthouse Board in respect of all current employees was in the order of £29,028,000. The estimated liability for pensions in payment and deferred pensions of former employees of the Northern Lighthouse Board was £49,005,000.

	<b>31 March 2011</b>
	<b>£000</b>
The Actuary's updated estimate of the liability of ACPs	54,000

The following information has been provided in accordance with International Accounting Standard 19 - Employee Benefits.

Active Members	29,028
Deferred Pensioners	5,602
Pensioners	43,404
Total Liability at Projected Unit Method	78,034
Real Discount Rate	2.90%
Inflation Rate	2.70%
Discount Rate	5.60%
Salary increase assumption	4.40%
Rate of increase for pensions in payment	2.70%
Rate of increase for pensions in deferment	2.70%

	£000	£000	£000
Scheme liability at 1 April 2010			88,994
Current service cost		1,742	
Past service costs		-6,674	
Interest on pension scheme liability		3,914	
			-1,018
Benefits payable			
Pensions or annuities to retired employees and dependents	-3,147		
Commutations and lump sum benefits:			
On retirement	-200		
On early retirement	-12		
On death	-3		
Injury benefits	0		
Medical retirement	-65		
		-3,427	
Pension payments to and on account of leavers	0		
Refunds to members leaving service	-3		
Group transfers to other schemes	0		
Individual transfers to other schemes	-11		
		-14	
			-3,441
Income received in respect of enhancements			
Employees	0		
Purchase of added years	67		
WPS Contributions	143		
Employers	0		
Bringing forward the payment of accrued lump sums	0		
Enhancement to pensions on departure	0		
Enhancement to pensions on retirement	0		
		210	
Pension transfers in			
Group transfers in from other schemes	0		
Individual transfers in from other schemes	233		
		233	
			443
Actuarial Gains and Losses			
Experience arising on the scheme liabilities	-2,737		
Changes in assumptions underlying the present value of scheme liabilities	-4,223		
		-6,960	
Club transfers in		16	
Club transfers out		0	
			-6,944
Scheme liability at 31 March 2011			78,034

	<b>£000</b>
Opening Balance	88,994
Closing Balance	78,034
<b>Decrease in Pension Reserve</b>	<b>-10,960</b>
Operating Cost	-4,932
Financing Costs	3,914
Pension Payments	-2,998
Statement of Recognised Gains and Losses	-6,944
<b>Total</b>	<b>-10,960</b>

	<b>31 March 2011</b>	<b>31 March 2010</b>	<b>31 March 2009</b>	<b>31 March 2008</b>	<b>31 March 2007</b>	<b>31 March 2006</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Experience Gains and Losses on Scheme Liability amount	-2,737	-7,688	0	280	-180	-173
	-4%	-9%	0%	0%	0%	0%
Total amount recognised in the Statement of Total Recognised Gains and Losses	-6,944	19,152	-7,432	-8,671	9,542	8,405
	-9%	22%	-11%	-12%	12%	13%

The Department for Transport has reported the contingent liability for the General Lighthouse Authorities' pensions in their Departmental Resource Accounts for 2009/2010 and a liability of £408,000,000 (the estimated liability calculated at 31 March 2010) has been disclosed.

On 17 December 2001 the then Department for Transport, Local Government and the Regions gave the General Lighthouse Authorities a Letter of Comfort (See Appendix A) in respect of contingent pension liabilities. The Letter states that in the unlikely event of insufficient money being available from the General Lighthouse Fund to pay pension liabilities, the Department will request funds from Parliament to make the necessary payments.

In November 1998 it was agreed together with the DfT, the other GLAs and the Lights Advisory Committee that a full actuarial valuation would be completed at three yearly intervals. Hymans Robertson have been engaged to provide actuarial support.

The principal revenue of the Fund is light dues which are fixed by the Secretary of State (Minister for the Marine for Republic of Ireland) by orders under Section 205 of the Merchant Shipping Act 1995 (which are subject to negative resolution of Parliament). Subject to Parliamentary approval of such orders, the Secretary of State will seek to ensure that annual revenues are maintained at a sufficient level to meet the Pension Scheme's liabilities.

## Merchant Navy Officers' Pension Fund

The Board is a Participating Employer of the Merchant Navy Officers' Pension Fund (MNOPF) which is a defined benefit scheme providing benefits based on final pensionable salary. The MNOPF is a funded multi-employer scheme but the Northern Lighthouse Board is unable to identify its share of the underlying assets and liabilities. Officers who start employment with the Board and are members of the MNOPF are given the option of continuing MNOPF membership or joining the Northern Lighthouse Pension Scheme. This option is no longer given to new entrants. The assets of the scheme are held separately from the General Lighthouse Fund, being held in separate funds managed by trustees of the scheme. Contributions to the scheme (11.9% - 1 April 2010 to 30 September 2010/15.5% 1 October 2010 to 31 March 2011 - of pensionable salaries) are charged to the Statement of Comprehensive Net Expenditure when they are paid.

Contributions to the MNOPF as follows:

	<b>2010/11</b>	<b>2009/10</b>
	<b>£</b>	<b>£</b>
MNOPF Contributions	18,000	269,000

During 2010/2011 2 Officers were members of MNOPF.

The rules of the MNOPF state that Participating Employers may be called to make lump sum payments to make up deficits. With effect from 8 June 2000 the rules were amended to state that an employer will not be regarded as ceasing to be a Participating Employer as a result of ceasing to employ Active Members or other eligible employees. The MNOPF has made an application to the Court to obtain confirmation that the position that applies from 8 June 2000 also applied before.

As a Participating Employer, the Board can be required to contribute to the deficit. The hearing of this matter took place between 8 and 11 March 2005 and the judgement was handed down by Mr Justice Patten on 22 March 2005. In general terms the judgement stated that the Trustees of the MNOPF are entitled to demand a contribution to meet the deficit in the Post 1978 section from all employers who have ever participated in the Fund.

The Board has made a provision of £2.1M for the liability arising under Section 75 of the Pensions Act 1995 when the last 'Active' member ceases employment with the Board.

	<b>2010/2011</b>	<b>Restated 2009/2010</b>	<b>2009/2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Northern Lighthouse Pension Scheme - current service	1,742	1,270	1,356
Northern Lighthouse Pension Scheme - past service	-6,674	86	0
Merchant Navy Officers Pension Fund	18	269	269
Partnership Pension Accounts ("Stakeholder Pensions")	19	12	12
Public Sector Club Transfers	-16	-50	-50
Annual Compensation Payments	0	0	5

## 19. Commitment under leases

### 19.1 Operating leases

	2010/11 £000	2009/10 £000
Obligations under operating leases comprise:		
Land		
Not later than one year	18	22
Later than one year and not later than five years	2	21
Later than five years	3	14
Buildings		
Not later than one year	9	8
Later than one year and not later than five years	7	0
Later than five years	0	0
Other:		
Not later than one year	890	710
Later than one year and not later than five years	2,217	3,338
Later than five years	0	548

## 19.2 Finance leases

	2010/11 £000	2009/10 £000
Obligations under finance leases comprise:		
Buildings		
Not later than one year	0	0
Later than one year and not later than five years	0	0
Later than five years	0	0
	<b>0</b>	<b>0</b>
Less interest element	0	0
	<b>0</b>	<b>0</b>
Other		
Not later than one year	2,298	2,303
Later than one year and not later than five years	9,193	9,210
Later than five years	15,698	18,004
	<b>27,189</b>	<b>29,517</b>
Less interest element	-7,140	-8,266
	<b>20,049</b>	<b>21,251</b>
	NLV Pharos	NLV Pole Star
Length of lease	15 years	25 years
Year commenced	2007	2000
Outstanding lease period	11 years	15 years
Frequency of payments	Half-yearly in advance	Half-yearly in advance
Interest rate charged	5.25%	5.15%

The payables due under finance leases are secured on NLV Pharos and NLV Pole Star.

## 20. Other financial commitments

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There are no other financial commitments.

## 21. Capital commitments

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	2010/11 £000	2009/10 £000
Contracted capital commitments at 31 March 2011 not otherwise included in these financial statements		
Property, plant and equipment	117	354
Intangible assets	0	2
	<b>117</b>	<b>356</b>

## 22. Post-retirement benefits

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In previous years, the Board has paid for career counselling and advice for staff made redundant under restructuring. This advice is provided prior to retirement. There have been no payments made in 2009/2010 and 2010/2011.

## 23. Contingent liabilities disclosed under IAS37

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### Protection and indemnity

The Board's marine protection and indemnity risks are insured through The Standard Steamship Owners' Protection and Indemnity Association (London) Limited which is a member of the International Group of Protection and Indemnity Clubs.

The Club has adopted a conservative underwriting policy and concentrates on insuring vessels operating in European inland waterways, harbours and coastal trades.

The mutual method of insuring these risks includes a re-insurance programme and the pooling arrangements of the International Group. However, in common with all members of International Group Clubs, the Board could be liable for additional premium payments (Supplementary Calls) to cover any claims which cannot be met from funds available. The Standard Club has closed the years up to and including 2008/2009 and therefore there will be no Supplementary Calls for 2008/2009 and preceding years. The Club has advised the Board that it does not anticipate Supplementary Calls for the years 2009/2010 and 2010/2011. As a result, the Board has made no provision in the Accounts.

This contingent liability was disclosed at 31 March 2008 and 31 March 2010.

### Litigation

The Board has one outstanding dispute arising out of its normal activities. The Legal Opinion obtained by the Board indicates that in the event of litigation the Board is likely to succeed. Therefore no provision has been made in the Accounts.

Both these contingent liabilities were disclosed at 31 March 2009 and 31 March 2010.

## **Pension Indexation**

On 27 May 2011 an application for Judicial Review of the Government's decision to change public service pension indexation arrangements had been granted. The Northern Lighthouse Pension Scheme operates on a "by analogy" arrangement with the Principal Civil Service Pension Scheme and will be affected by the outcome of the Judicial Review. It seems unlikely that the case will be heard before September/October 2011. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the government have not been assessed.

## **Differential Global Positioning System covering the UK and Republic of Ireland**

The contract for re-engineering of the GLA DGPS system was formally signed on 7th October 2008. Following delays in development of software by the sub-contractor, the contract was amended to extend the completion date from 31st March 2010 to 29th October 2010. Amendment of the contract was signed by the Chief Executives on 16th December 2009.

The contract value is £4,303,753. To date the GLAs have paid approx £1.3M to the contractor under the contract for completion of the first 3 milestones. Ownership of some of the plant/equipment for the project currently held at the contractors' premises has already transferred to the GLAs, to the value of approximately £645,562 at milestone payment 2. In addition infrastructure as generators and antennas has already been installed at some stations.

## **Programme of Work**

The Programme of Work was updated to Issue 5.0 in accordance with the contract extension dated 16th December 2009. The revised contract completion date is 29th October 2010.

The working Programme of Work was successively amended up to Issue 5.8 on 16th April 2010 retaining the contract completion date. The next version of the Programme of Work (POW) was received on 24th September 2010 and showed completion date of 19th October 2011 with 90% confidence. A further version of the POW received on 24th December 2010 shows completion date of 3rd November 2011. Further updates of the POW have been received. At a meeting between the GLAs and the contractor on 16th March 2011, a completion date for Factory Acceptance Testing (FAT) of 31st May 2011 was agreed based on POW V6\_3 dated 17th Feb 2011. POW update V6\_13 dated 6th May 2011 shows dates as follows. The failures resolution period of 45 days gives rise to slippage of completion of Project Milestone (PM) 4 to 15th July.

## **Liquidated Damages**

Due to the delay in completion, the GLAs have claimed the maximum liquidated damages available under the contract of £215,178.65, of which £71,726.22 relates to the Board and was received on 1st June 2011. The Board has made no adjustment in the 2010/2011 accounts for these liquidated damages.

In the event that the contractor fails to deliver a system proven to work in accordance with the specification, the contract will be terminated and all money paid out will be reclaimed.

Due to the uncertainty of the outcome of the FAT, the Board has not made any provision for the failure of the contract but declare it as a contingent liability.

## 24. Inter-GLA ship transactions

The Board provided the services of NLV PHAROS during the year to the other GLAs under the terms of the inter-GLA Ship Agreement. The Board did not receive the services of other ships. While there would be no transfer of Funds between the GLAs in respect of this service, these transactions would give rise to notional expenditure of

	2010/11	2009/10
	£	£
Notional expenditure	0	0
Notional income	8,000	0

## 25. Related parties

### General Lighthouse Fund

The General Lighthouse Fund is administered by the Department for Transport who sponsor the three General Lighthouse Authorities. For this purpose each is considered to be a Non Departmental Public Body (NDPB).

The Authorities and the Department for Transport are regarded to be related parties. During the year there has been various material transactions between the Fund and the Authorities.

	2010/11	2009/10
	£000	£000
Advances from the General Lighthouse Fund	22,545	21,875
Expenditure for all GLAs	21	35

Neither the Secretary of State for Transport, any key officials with responsibilities for the Fund or any of the Authorities board members, key managerial staff or other related parties has undertaken any material transactions with the Fund during the year.

### **The North Ronaldsay Trust**

The North Ronaldsay Trust is a company limited by guarantee and registered in Scotland. The Trust has been established to promote the island and, in particular, the built and natural heritage. The Trust has six nominated members including the Northern Lighthouse Board. The Director of Finance and Administration has been appointed as a Director of the Company. The Board's liability to the Trust is limited to £1 and there have been no transactions in the year.

### **Scotland's Lighthouse Museum Ltd**

Scotland's Lighthouse Museum (SLM) Ltd is a registered charity whose primary purpose is to advance and promote the education of the general public, to establish and preserve a Museum of the history and operation of lighthouses in Scotland and to aid their physical preservation. The Director of Engineering is an SLM Board Member.

### **Black Bequest**

The Black Bequest is a registered charity whose primary purpose is to provide support to former lighthouse keepers and their dependants. The Trustees are the Chairman, Vice-Chairman and Chief Executive. There have been no transactions between the Trust and the Board.

### **The Commissioners of Northern Lighthouses 2000 Trust**

The Commissioners of Northern Lighthouses 2000 Trust is a registered charity whose primary purpose is to provide support to Merchant Navy Officer Cadets. The Trustees are the Chief Executive, Director of Finance and one Commissioner. There have been no transactions between the Trust and the Board.

### **The Heritage Trust**

The Northern Lighthouse Heritage Trust is a registered charity whose primary purpose is to support the preservation and conservation of lighthouse heritage.

The Board and the Trust entered into Asset Transfer Agreement to transfer the Silver collection (insurance value £96,960) in March 2011.

### **Scottish Shipping Benevolent Association**

Scottish Shipping Benevolent Association is a registered charity whose primary purpose is to give assistance to people in the Scottish Shipping Industry.

Roger Lockwood is a Director since 31 April 2009. A charitable donation of £100 was made on 14 July 2010.

## 26. Third party assets

There are other assets held by the Board on behalf of the Commissioners. These assets are a collection of furniture, books, maps, paintings and silver and do not form part of the General Lighthouse Fund.

	31 March 2011	31 March 2010
	£	£
Value of the heritage collection	277,100	406,410
Cash and investments	50,822	52,544

## 27. Financial instruments

IAS 32 *Financial Instruments: Presentation* requires disclosure of the role which financial instruments have had during the year in creating or changing the risks the Board faces in undertaking its activities. Because of the largely non-trading nature of its activities and the method of funding by the General Lighthouse Fund, the Board is not exposed to the degree of financial risk faced by other business entities. The Board has borrowing powers under the Merchant Shipping Act 1995 but very limited powers to invest surplus funds.

As permitted by FRS 29, debtors and creditors which mature or become payable within 12 months from the Statement of Financial Position date have been omitted from the profile.

### Liquidity risk

The Board relies primarily on advances from the General Lighthouse Fund for its cash requirements and is therefore not exposed to significant liquidity risks although it is dependent on the liquidity of the General Lighthouse Fund. During the year the income to the General Lighthouse Fund has been adversely effected by the Global downturn, and in particular, the reduction in shipping traffic and investment returns. The Department for Transport has taken steps to increase the light dues charges to compensate. In association with the GLAs the Department for Transport has also revised the contingency reserve level to be held in the General Lighthouse Fund.

### Interest rate risk

There is an exposure on the leases to a change in the main rate of Corporation Tax. During the setting up of the finance lease for NLV Pole Star, the Board evaluated the option of eliminating this exposure. However, it was found that the financial risks were not significant.

The Board holds working funds in a Money Market Account and is therefore exposed to interest rate fluctuations. However, the balance is managed to ensure that it is maintained at a minimum to meet forecast short-term cash requirements.

### Currency risks

The Board has no significant foreign currency transactions and is not therefore exposed to significant currency risks.

### Fair values

Set out below is a comparison by category of the book values and fair values of the Board's financial assets and liabilities as at 31 March 2011.

	<b>Book Value</b>	<b>Fair Value</b>
	<b>£000</b>	<b>£000</b>
Primary Financial Instruments		
Financial Assets		
Cash and Bank at hand	432	432
Bank Guarantees	640	640
Financial Liabilities		
Finance Lease obligations	20,049	20,049

A bank guarantee is held to protect the Board in a significant contract. The guarantee would provide financial compensation to the Board in the event of contract default. The financial compensation would be used to fund a short-term contract with an alternative supplier to provide continuity of service.

## 28. Losses

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Obsolete inventory, write-off of property, plant & equipment, and losses amounting to £1,000 (£15,000 - 2009/2010) were written off during the year.

## 29. Further information

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### 29.1 Number of non-current assets

	31 March 2011	31 March 2010
Lighthouses (including one station providing radio/electric nav aids only)	213	210
Buoys	204	201
Unlit beacons	30	34
Buoyant beacons	0	0
Tenders	2	2

### 29.2 Number of non-current assets deployed

	31 March 2011	31 March 2010
Lighthouses (including one station providing radio/electric nav aids only)	208	206
Buoys	161	164
Unlit beacons	30	34
Buoyant beacons	0	0
Tenders	2	2

### 29.3 Responsibility for Aids to Navigation

Aids to navigation for which the Board has responsibility as a General Lighthouse Authority as at 31 March 2011.

#### STATUTORY

	Number	Monitored	Analysed by Category		
			Category 1	Category 2	Category 3
Lights - over 15 nautical mile range	71	77	76	1	0
Lights - less than 15 nautical mile range	137	113	64	49	0
<b>Total Lights</b>	<b>208</b>	<b>190</b>	<b>140</b>	<b>50</b>	<b>0</b>
Buoys - Lit	161	0	47	88	26
<b>Total Buoys</b>	<b>161</b>	<b>0</b>	<b>47</b>	<b>88</b>	<b>26</b>
<b>Beacons</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30</b>
<b>DGPS stations</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>0</b>
<b>RACON on lighthouses</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>0</b>	<b>0</b>
<b>RACON on buoys</b>	<b>9</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>0</b>
<b>AIS Units - Lights</b>	<b>10</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>AIS Units - Buoys</b>	<b>17</b>	<b>17</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTALS</b>	<b>457</b>	<b>239</b>	<b>218</b>	<b>138</b>	<b>56</b>

Note: Number of stations with more than one RACON 3

Note: Number of AIS stations with Base Units and Controllers 5

#### CONTRACT

Lights	4	Decommissioned offshore structures
Buoys	99	
Fog Signals	0	
RACON stations	3	

#### LOCAL AUTHORITY

Light stations	1,021	
Buoy stations	706	48 are maintained by NLB
Total	1,727	



**Waves on Skerryvore Rocks**

# Letter of Comfort

## Appendix A

THE DEPARTMENT FOR TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS

### LETTER OF COMFORT IN RESPECT OF GENERAL LIGHTHOUSE FUND PENSIONS CONTINGENT LIABILITIES, TO BE GIVEN TO THE GENERAL LIGHTHOUSE AUTHORITIES

The pensions in respect of the beneficiaries of the Pensions Schemes of the General Lighthouse Authorities (GLAs) are safe. This is recognised by the fact that the pensions liability of the General Lighthouse Fund (GLF) is reported to Parliament annually as a contingent liability of the Department of Transport, Local Government and the Regions (DTLR). This is a form of early warning to Parliament that it may be asked to authorise expenditure on this item. Any liability which a GLA might not be able to meet from its own resources (which in the GLA's case is the GLF) would fall to DTLR as the sponsor department.

DTLR has therefore already given the strongest public assurance that the pensions of the beneficiaries of the Pensions Schemes of the GLAs will be paid by the inclusion of the liabilities of the GLF in their departmental contingent liability return to Parliament.

Therefore in the unlikely event of insufficient money being available, DTLR will request funds from Parliament to ensure that the pensions are paid to the beneficiaries of the Pensions Schemes of the GLAs. The pensions of the GLAs are therefore assured by this Letter of Comfort.

Signed by:

On behalf of the Secretary of State  
for Transport, Local Government and the Regions

Date 17.12.2001

## Northern Lighthouse Board

84 George Street, Edinburgh EH2 3DA  
Tel: 0131 473 3100  
Fax: 0131 220 2093  
E-mail: [enquiries@nlb.org.uk](mailto:enquiries@nlb.org.uk)  
Website: [www.nlb.org.uk](http://www.nlb.org.uk)

