

NORTHERN LIGHTHOUSE BOARD
GOVERNANCE BOARD – STRATEGY
MINUTES – 29 SEPTEMBER 2022

PRESENT:

HRH The Princess Royal	Patron
Alastair Beveridge	Chair
Elaine Wilkinson	Vice-Chair
Hugh Shaw	Commissioner
Brian Archibald	Commissioner
Nigel Ross	Commissioner
Derek Pyle	Commissioner
Dick Welsh	Commissioner
Robert Aldridge	Commissioner
David Cameron	Commissioner
Mike Bullock	Chief Executive
Phil Day	Director of Operations
Mairi Rae	Director of Business Services

IN ATTENDANCE:

Jim McBrier	Risk and Improvement Manager
Fiona Holmes	Communications Officer
Araminta Ritchie	Lady-in-Waiting
Karen Charleson	Senior Executive Assistant (minutes)

1. WELCOME, APOLOGIES AND INTRODUCTION

Apologies for absence were received from Commissioners Bain, Charteris, Woodward, Lobban, Corry, Turnbull, Lewis and Anwar.

The Chair welcomed HRH The Princess Royal, Patron of the Northern Lighthouse Board to the meeting and expressed his deepest sympathy of behalf of the Board and staff following the death of HRH Queen Elizabeth II.

2. GOVERNANCE CHANGES - OVERVIEW

The Chief Executive gave an overview of the revised organisational structure and governance changes.

It was noted that over the last 4-5 years NLB has undergone considerable organisational change at staff level. There were significant challenges within the organisation which required to be fixed particularly around not having clear accountability/responsibilities and empowerment to make decisions.

The presentation covered:

Organisation Structure

- Clear roles and accountability
- Empowerment
- Silos
- Asset Management Focus
- Collaborative Project Management

- Centralised Planning Leading to Improved Operations and Project Delivery

Governance Changes

- Previous Board & Committee Structure – 24 x individual meetings
- New Structure – Board of Commissioners (only when required), 4 x Governance Board (all Commissioners plus Executive), 1 x Strategic Governance Board. The NavOps Committee, HSE Committee, People Committee and Audit & Risk Committee meet on a quarterly basis.

The Chairs of the individual Committees are now empowered to take charge of their area of responsibility and issue an Assurance Statement following each meeting.

The Annual Board Evaluation has shown that the overall view from Commissioners on the change is positive (79% strongly agreed/7% agreed).

3. ANNUAL REPORT AND ACCOUNTS

The Chief Executive, as Accounting Officer, provided an overview of the Annual Report and Accounts.

- FY 2021/22 has been a challenging period with the impact of COVID, extreme weather and latterly the impact of the war in Ukraine.
- IALA availability standard for Cat 1 AtoNs – NLB have fallen just below the IALA standard. This is due to operational fragility of older equipment at two Pillar Rocks which was compounded by significant weather disruption, winter daylight and tidal restrictions as well as a number of helicopter and ship defects. Remedial work has since been undertaken to reinforce the two stations.
- Engagement Survey - Results have held up well. The overwhelming majority of people like working for NLB and the ongoing indicators from the Senior Team is that morale remains high. However, there are significant concerns about NLB's ability to recruit and retain staff as a result of being unable to pay competitive salaries.
- Safety - Overall a good year.
- Operations - The team did well to get lighthouse refurbishment projects underway and completed. The ships have continued to operate and the Technicians made significant strides forward on reducing the maintenance backlog.
- Assurance – NLB had a successful Assurance year with good results from audits from GIAA, LRQA who provide assurance on ISO standards and MCA. And the Annual Management Assurance Report to DfT was Substantial – this view was endorsed by the DfT Sponsorship team. NLB also had a clean audit from NAO.
- Cost Increases and Supply Chain Issues – NLB continue to tackle the true effects of the war: inflation, rises in energy prices and ship fuel, shortage of skills, significant interest rate rises and a historic dip in the value of Sterling.
- Processes and Procedures - The increasing burden being placed on NLB by DfT processes and procedures is an ongoing concern.

The Director of Business Services gave a presentation covering:

- Sanctioned Budget
- Pay & Pensions
- Non-Pay Costs
- Commercial Work Surplus
- Capital
- Vessel Replacement Project

- Redundancy
- Ship Finance
- Brexit
- FY Actual
- Changes from Previous Year's Report i.e. Sustainability, Fair Pay Disclosure, Gender Pay, Revenue Recognition, Excess/Obsolete Stock.
- Changes since the Audit & Risk Committee (3 August 2022)
- Statement of Comprehensive Net Expenditure
- Financial Position as at 31 March 2022

Lighthouse Projects

Commissioner Wilkinson asked whether there was any capital lighthouse projects that were not completed and may impact on FY 2022-2023. The Director of Business Services explained that there had been several lighthouse projects not finished on site due to weather, etc. Those projects were assessed at the beginning of the financial year and reprogrammed in the Corporate Plan. Commissioner Wilkinson took assurance from the fact that any movement was managed to maximise spend by bringing forward future year's projects. The Chief Executive highlighted that this may be more challenging going forward due to the ability of the supply chain to respond and availability of contractors.

New Procurement Rules

The Chair highlighted that new procurement rules may require that projects to be bundled together into one contract which will reduce NLB's flexibility, ability to change quickly and increase cost. It was noted that NLB's existing contracts are coming to an end and will require to be tendered next year. The existing contractors are extremely specialised and are very proud of working with NLB. NLB continue to flag up their concerns at every possible opportunity.

The Chair asked whether it would be possible to bring more of this specialist work in-house. The Chief Executive advised that this would be challenging and difficult. This is not something NLB have ever done and would bring additional risks.

Commissioner Cameron advised that within devolved matters there is Scotland Excel for Procurement and local business can apply to get on to the list. Commissioner Cameron asked if NLB's specialist contractors were listed by Scotland Excel would Westminster see this as a way forward. The Chief Executive advised that NLB can tap into Scottish Government frameworks as well as into the arrangements e.g rental cars come from a Scottish Government contract.

Underspend

Commissioner Archibald asked if any underspend went back into the GLF and could be called upon in future years. The Director of Business Services advised that the GLF Accountant makes an assumption on the GLAs spend and predicts the income stream from light dues, based on that the level of lights dues is set by the Secretary of State.

Backlog of Maintenance

Commissioner Pyle asked if NLB accrue the cost for the backlog of maintenance. The Director of Business Services advised that this could not be provided for in the Annual Report and Accounts.

Assets

Commissioner Pyle asked if the bias for assets was based on depreciated replacement. The Director of Business Services advised that it has based on modern equivalent value which are revalued using an index. A full review of the process is done every 5 years and is peer reviewed.

Approval of the Report and Accounts to 31 March 2022

Commissioner Wilkinson, as Chair of the Audit & Risk Committee, advised that the Committee were content to recommend the Accounts to the Governance Board. There are no substantial changes since their meeting that would change the Committee's recommendations. Commissioner Wilkinson added that the Committee thought the quality of the report was of such a high standard particularly the section on sustainability.

The Governance Board approved the Report and Accounts for signing.

4. ANNUAL REVIEW OF MISSION, VISION, VALUES AND STRATEGIC GOALS

The changes made to the Mission, Vision, Values and Strategic Goals (MVV&SG) in Corporate Plan 2021-26 were a significant revision to reflect the Board of Commissioners' emphasis on Climate Emergency, Sustainability and the requirement to achieve Net Zero Carbon.

The revised MVV&SG were well received by NLB staff members who have really embraced the need to tackle the existential threat presented by Climate Change. The MVV&SG also attracted a positive response from wider stakeholders including DfT, the Lights Advisory Committee (LAC) and the other GLAs (Irish Lights in particular). The Values have also been incorporated into NLB's Staff Performance Management process.

Confidence in NLB's corporate approach has been further validated by the recent (August 2022) review by the Climate Change Committee (CCC) of NLB's latest Adaptation Report.

Commissioner Welsh asked how the MVV&SG were promulgated. The Chief Executive advised that they are displayed on each ship notice board, covered at inductions, highlighted at the Annual Staff Briefings, including in the Performance Management System, are included on lanyards and are displayed throughout Oban Base/HQ building.

Visit by NLV PHAROS to the Isle of Man

Commissioner Welsh advised that the recent visit to the Isle of Man had been incredibly successful. Over 800 people visited the vessel which is quite phenomenal and feedback has been extremely positive.

Dinner onboard NLV PHAROS in Oban

Commissioner Pyle highlighted the benefit of the Dinner onboard NLV PHAROS during the inspection voyage in Oban which proved to be an important meeting for all the Stakeholder groups attending.

The Director of Operations provided an update on the developments on the establishment of a harbour authority at Oban Bay. It was noted that the AtoNs will remain NLB's.

Approval

The Governance Board agreed that the MVV&SG remain relevant and fit for purpose. Having been fully embraced by NLB staff and key stakeholders it was agreed that they go forward to Corporate Plan 2023-28 unchanged.

5. CORPORATE PLAN

The Director of Business Services gave a summary of the financial position included within the Corporate Plan. It was recognised that NLB are seeing significant increases in costs and there are a number of challenges.

The Director of Business Services provided more details on the main increases/risks:

- Pay Costs
- Vessel Replacement Project
- Fuel
- Electricity/Gas
- DGPS Decommissioning

Pensions

Commissioner Archibald asked if there was any potential impact of the triple lock and higher inflation meaning contributions having to increase. The Director of Business Service advised that the Remedy 2015 is likely to cost more and therefore it is likely that there will be increases in pension contributions. There is currently no forward look at what is going to change for pensions. Last year they only extended for a year so there is a chance that when the next set of rates are issued they will be higher again. NLB pensions are not protected by the triple lock but do go up with RPI.

Vessel Replacement Funding

Commissioner Wilkinson asked if the interest rates that DfT will charge on a loan are driven specifically by the requirements within Central Government and was there any flexibility. The Director of Business Services advised that this was being explored but to date it will be a specific table of rates chosen by HM Treasury.

The Chair asked if the impact on the GLF of higher interest rates for both NLB and TH new vessels presented a risk to the NLB's new ship project. The Chief Executive explained that it is a risk but NLB have a statutory responsibility to discharge a vital safety service.

Staffing

Commissioner Cameron asked if it could be argued that NLB's complement was too big as it still delivered a service despite gaps in staffing noting the risk that it comes to a point that NLB cannot deliver a service. The Director of Business Services advised that it is just the time factor between someone leaving and recruiting e.g. someone leaves in May and new person does not start until August. During that time work has built up and there is a backlog. Some of the increases in staff are driven by additional requirements placed on NLB by UK Government e.g. procurement reform, contract management, etc.

New Vessel Fuel

Commissioner Wilkinson advised that there was an expectation, with the new vessel being hybrid, that there would be less fuel usage and asked for clarification if this would be the case given it was a larger vessel. The Director of Operations advised that the calculations currently available for the new vessel, based on tank testing, power curve, etc, indicate that at an economic speed the vessel will burn slightly less fuel than the current NLV POLE STAR. This is caveated as the vessel needs to get into service and be operating before this can be confirmed. However, it is looking very promising.

The Patron advised that there has been study done on hydrogen by a company on the Isle Wight which no one nobody has picked up on. Commissioner Archibald added that one of the small interisland ferries on Orkney was being run with hydrogen on board.

Supply Chain and other Risks

The Director of Business Services advised that electric vehicles had been ordered around a year ago and there is still no delivery date. This has been caused by delays at the manufacturing plant, computer chip availability and general supply issues. Hiring vehicles is also proving problematic as the hire companies are unable to get new vehicles therefore have a smaller fleet, aging fleet and are passing on their higher costs.

Suppliers are experiencing some recruitment and retention issues, cost pressures, etc. For example, the GLAs have a framework agreement for solar panels with 3 suppliers, one of supplier has indicated an 80% increase in cost. There are discussions underway with that particular supplier but the other suppliers have also indicated higher costs.

There is also a hardening insurance market resulting in higher costs and more restrictions in the level of cover available.

Aviation Services is a joint GLA project. The current helicopter contract is due to expire in November 2025. There is still some concern around whether IL will be able to procure together with TH/NLB but an International Agreement is being explored.

Commercial Income is also likely to reduce if there is a recession.

Clearly NLB have extra costs but so does TH and IL. There is concern around what that will do to the level of Light Dues at a time when shipowners costs are increasing too.

Capital Projects

The Director of Operations gave an overview of capital projects for 2023-2024.

- Bass Rock – Refurbishment
- Hyskeir – Refurbishment to include installation of a solar array
- Loch Spelve – Installation of a new unlit starboard hand beacon
- Mull of Kintyre – Access road refurbishment
- Ruff Reef – Refurbishment
- Sumburgh – Refurbishment including removal of mercury bath and replacement with a mechanical bearing with the retention of the existing lens.
- HQ Refurbishment – Health, safety and sustainability improvements
- Oban Buoy Store Mezzanine Floor – Welfare improvements
- Oban Pier Shore-Ship Power – Greening improvements to improve noise and engine pollution.
- ICT – Various communication, network and infrastructure projects
- Vessels – Routine engine repairs and dry-docking
- Electrical Vehicles – Provision of EV Chargers at Bases and mains powered lighthouse stations.

GLA Effectiveness KPI

The Director of Business Services advised that the GLA Effectiveness measure has been agreed by both DfT and LAC. The Effectiveness measure covers Statutory Duties, Financial Performance (last year against sanction), Financial Performance (previous 5 years) and 2022/23 Corporate Plan Targets.

Headcount – Aviation Service

The Chair asked if there was a need to recruit a specialist for the Aviation Services Project. The Director of Business Services advised that this would be resourced using the existing headcount.

Corporate Plan Document

Commissioner Wilkinson advised that at the last Governance Board it was agreed to carry out a more formalised benchmarking trial with TH (NLV PHAROS/THV GALATEA costs/performance and safety culture) and committed to referencing this within the Corporate Plan. The Chief Executive undertook to review the current Corporate Plan to include this.

Action: Chief Executive

Commissioner Wilkinson highlighted the clear link within the document to the Greening Government Agenda however a number of projects are not necessarily being driven by the GGC but are done for operational reasons e.g. health & safety, efficient/effective service, wellbeing, etc. These are the most important reasons and this should be recognised.

Approval

The Governance Board approved the Corporate Plan 2023-2028. The document will now be taken forward for discussion with DfT, Transport Scotland and LAC with formal submission to DfT on 31 October 2022.

6. VESSEL REPLACEMENT

The Fleet Review endorsed the requirement for a 7vessel fleet. This has been the driver for replacing NLV POLE STAR.

The Problem

NLV POLE STAR is an aging vessel with increasing reliability issues and is beyond economical upgrade or repair. Spare parts for the main engines are no longer being made which means there is an inherent risk of significant cost and reduced operational availability should a component fail. The production of propulsion unit drives ceased shortly after POLE STAR was delivered. There is only one specialist service engineer remaining with knowledge of these units which has led to extensive delays in necessary repairs being performed.

The power system is inefficient by modern standards and it is necessary to run multiple generators at low rpm during buoy handling work and Dynamic Positioning work.

NLV POLE STAR's accommodation does not have the degree of noise and vibration reduction and containment provided in more modern vessels.

New Vessel Name

The new vessel will be named POLE STAR which will be the fifth vessel in NLB's service to hold the name; the first was Commissioned in 1892.

NLV POLE STAR (V)

The challenges with the existing vessel have been resolved within the new design. The response capability for wrecks and new dangers has been improved, there is far better performance in adverse weather, and the new vessel will be aligned with 2050 targets of the UK Government and IMO requirements in terms of the environment. There will also be better operational effectiveness, the length of the vessel and overall size has been defined by the need to improve seakeeping. The vessel will meet the constraints of length and draft for operations in the Sound of Harris. It will have a larger working deck allowing greater number of buoys to be carried reducing the need for transit to collect and drop off or buoys delivered by road transport. It will have additional cabins for trainees and contractors. Also, it will be able to support the Aid to Navigation maintenance work carried out by Technicians. The vessel is also designed to allow for technology to be upgraded through its life.

The Director of Operations provided an overview of the features of the vessel on the General Arrangement. Overall, it is a much more able and capable vessel which will deliver all requirements and serve NLB well for many years to come.

Integrated Project Team

The Integrated Project Team has expanded over the period of the project not only within NLB and with specialist help from lawyers, etc. but also with wider community i.e. DfT, Cabinet Office, HM Treasury, etc. CMAL have also been amazing in terms of providing professional help and guidance.

Market Engagement and Responses

A Prior Information Notice (PIN) was issued and 3 virtual institute days were held. Fifteen suppliers responded to the Selection Questionnaire and bidders conference was held in November 2021.

Procurement Process

It was agreed that a shortlist of 6 tenderers would be taken through following Selection Questionnaire evaluation, 3 bidders would be taken to Invitation to Negotiate Stage and up to 3 would be taken through the best and final offers. Following Selection Questionnaire 3 tenderers voluntarily withdrew and during the Invitation to Negotiate Stage another 1 tenderer decided to voluntarily withdraw. Best and Final offers from the 2 remaining bidders are due on 4 October 2022.

Site Visits

The Director of Operations gave an overview of the site visits as part of the evaluation process. All yards were felt to be capable of delivering the vessel to design.

Project Timeline

NLB are now at the final stages of various Commercial Assurance Boards and Combined Tier 2 Investment Board. NLB are confident in the specification, outline design and that they have 2 bidders capable of delivering the vessel. It is the intention to award the Contract on 24 December 2022.

Key Stakeholder Engagement

This has been an important part of the project. NLB have been working closely with the National Shipbuilding Office, Cabinet Office and DfT.

SRO Briefings have been issued to Stakeholders covering UK Shipbuilders Lesson Learned, Social Values and Price Volatility.

Knowledge Sharing

MCA, British Antarctic Survey and CMAL have been great support to NLB and getting to this point would have been much harder without them. NLB are now able to give back, helping the Isles of Scilly Council, Home Office, Marine Scotland, Highland Council and IL.

NLV PHAROS Replacement

There was the opportunity with OSK to undertake a small project to do concept thinking for the future for NLV PHAROS' replacement. The Director of Operations gave an overview of the concept. The future NLV PHAROS is predominately a helicopter operations vessel and needs to be capable, safe and future proofed for aviation. The intention is to raise the helideck which is a better aviation solution. The General Arrangement is much more basic and very much modelled on POLE STAR's replacement but with the helicopter very much the very first and primary focus for down aft.

It was noted that TH's outline design for their new vessel does not meet NLB's requirements.

7. COMMUNICATIONS UPDATE

The Communication Officer gave an update on the highlights of the past 12 months.

- Light the North was a trail of lighthouse sculptures that ran from Aberdeen up to Orkney.
- For the Safety of All – this book was published in partnership with Historic Environment Scotland.
- Keepers of the Light – the play toured venues throughout Scotland. Izzy Gray who wrote the play is the Grand daughter of a former NLB Keeper.

- Development of an app for Scotland's Outstanding Lighthouses
- A filming project with Stranraer Development Trust to promote the area as a tourist destination
- A community garden project in Stranraer where NLB donated two decommissioned buoys.
- Outreach work.
- Open day on NLV PHAROS when the vessel was in the Isle of Man – attracting over 800 visitors across the weekend.
- The 250th anniversary of Robert Stevenson.
- Filming Enquiries
- The Department for Transport have asked us to take part in a series of short films called 'Transport Heroes'.
- Ministerial visits
- Social media

It has been a busy year. The activity over the past year, confirms there is still a huge interest in NLB's work whether that is modern day operations or heritage.

8. ANY OTHER BUSINESS

There were no items of any other business raised.