

Commissioners of Northern Lighthouses



Report and Accounts to 31 March 2008

We must draw your attention to the note under the heading “Audit” on Page 38 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.

The Report and Accounts for the General Lighthouse Fund for the year ended 31st March 2008 have not been laid before Parliament.

Front Cover - Monach Isles © Patricia & Angus Macdonald/Aerographica

The Original Monachs Light

The site for the Monachs lighthouse was chosen at Latitude 57°31.5’N, Longitude 07°41.5’W and work began on its build under the supervision of David & Thomas Stevenson. The structure consists of a 41m high red brick tower, with sandstone sills, lintels and detailing and on the 1 February 1864 the light was first exhibited at a cost to build of £14,673.

In 1942 and the Second World War the Monachs Light was closed down. At the end of the hostilities in 1945 the light was not relit and in 1948, after extensive enquiries had been made from shipping, it was found that the light had ceased to be of value for general navigation. Therefore on 22 November 1948 the Monachs Light was permanently discontinued.

Fifty years later

Following the wreck of the Braer, in Shetland, in 1993, the subsequent report by Lord Donaldson “Safer Ships, Cleaner Seas” recommended laden tankers use the Deep Water Route, West of the Hebrides, in preference to the restricted waters of the Minches. In July 1996 the Northern Lighthouse Board received approval and financial backing from the Department of Transport for the construction of three new lighthouses marking this Route. The lights would be major light at HASKEIR, off North Uist, and two minor lights at GASKER off North Harris and the MONACH ISLES. All three lights were built, established and site works completed in 200 days between April and October 1997.

The new Monachs Light was a solar powered, white clad metal framework tower, 8 metres high, with a character of flashing (2) white every 15 seconds and a range of 10 miles.

2005 Aids to Navigation Review - Decision to reinstate the original Monachs Light

Following recommendations in the 2005 Aids to Navigation (AtoN) review of navigational needs, it was decided to increase the range of the Monach Isles Light from 10 miles to 18 miles. To achieve an 18 mile range it would be necessary to raise the focal plane of the existing light and increase its output. The modular design of the existing aluminium and GRP lighthouse did not lend itself to the increase in focal plane height required. Additionally, it would be necessary to utilise a rotating light, with a large array of solar panels and increase battery capacity. The best engineering solution for increasing the range of the AtoN was to house a new optic in the original 1864 lighthouse tower.

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

The Commissioners as at 22 September 2008

Captain George Sutherland FNI (Chairman)

Dr Andrew Cubie CBE (Vice-Chairman)

The Rt Hon Elish Angiolini QC WS
Frank Mulholland QC

Sheriff Principal Edward F Bowen TD QC
Sheriff Principal R Alastair Dunlop QC
Sheriff Principal Bruce A Kerr QC
Sheriff Principal Brian Lockhart
Sheriff Principal Sir Stephen S T Young Bt QC
Sheriff Principal James A Taylor

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

Captain H M Close B.Sc.
Robert Quayle
Alistair Whyte
Peter Mackay CB

The Chief Executive

Roger Lockwood CB

Secretary to the Board

Jill Bennett

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
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

Solicitors

Bell and Scott LLP
16 Hill Street
Edinburgh EH2 3LD

Insurance Brokers

Aon Group Limited (Marine)
8 Devonshire Square
London
EC2M 4PL

Smart & Cook (Scotland) Ltd
1 Pinkhill
Edinburgh
EH12 7BA

Actuaries

Aon Consulting Limited
40 Torphichen Street
Edinburgh
EH3 8JB



Chairman's Review

"To deliver a reliable, efficient and cost-effective Aids to Navigation Service for the benefit and safety of all Mariners"

I am pleased to be able to report upon a year of sure-footed and steady progress, pursued with a clear sense of direction, by a healthy and stable organisation. Performance has been purposeful and these accounts represent a successful outcome in which targets have been met within the agreed budgets.

As ever the core business of the Northern Lighthouse Board is the maintenance of IALA standards. These have again been comfortably exceeded - an achievement which is a credit to all involved. New technology and improved engineering practice contribute enormously to this success whilst costs are continually reduced in pursuit of stability or reduction of Light Dues.

The most notable event of the year occurred appropriately enough at the beginning. NLV PHAROS arrived in Oban on 31 March and went directly into service on 1 April 2007. This was the culmination of several years of planning and effort which delivered a very high performance vessel well within the established budget. Because of late delivery the vessel had to go directly into service and it is to the enormous credit of those who planned, built and then operated her that she has performed virtually faultlessly from the outset. The efficiency gains as a result of this investment are already clear to be seen and I am confident that the vessel will make a very positive contribution to revenue in future years whilst also ensuring delivery of the Board's statutory responsibilities. The PHAROS was formally commissioned into service by our Patron, HRH The Princess Royal, at a very pleasant event attended by as many staff and other members of the lighthouse family as were able to come on 9 May 2007. Since then PHAROS has worked continuously, with no unplanned downtime, to deliver a fairly heavy work programme.

The Board continues to work towards development of improved and enhanced radio-navigation systems. The GLA are convinced of the need to provide a terrestrial back-up to satellite systems to ensure the integrity of future electronic navigation whilst allowing a controlled reduction in the provision of

physical aids. Progress is being made but much remains to be done in future years.

The future of the Board's heritage estate has pre-occupied the attention of Commissioners throughout the year. Very considerable progress has been made by the small team led by the Vice-Chairman towards establishment of an Heritage Trust and other structures which will enable the Board to properly provide for the future of these assets. The work was substantially complete at the year-end with only final detailing to be carried over into the new financial year. The thanks and appreciation of the Board to all involved should be recorded here.

Work has continued throughout the year to implement the decision of the Board to refurbish and retain its headquarters in George Street, Edinburgh. The Board is content with the progress being made and a sensible timetable has been set for a three-part contract which will provide a better working environment more suited to the needs of the Board in its 3rd Century.

Whilst most of the work to complete the 2005 Aids to Navigation review was complete by the end of the financial year we continue to benefit from the input of the users of our services at the annual Scottish Users Consultative Group Meeting. Whilst there is an entirely justified focus upon the benefits likely to flow from developments in electronic navigation systems for the future, the input from this very grounded and practical group in support of the continuing provision of physical aids is notable - and salutary. We benefit greatly from their contribution and would wish to build upon these past events to provide guidance for future direction.

The Board has welcomed the appearance of the Marine Navigation Bill which contains measures to implement changes and improvements to the statutory responsibilities of the Board. The long-awaited power to extend our commercial activities will allow exploitation of the efficiency gains implicit in the performance of the PHAROS and a substantial contribution to the GLF

Steps have also been taken this year along with the other GLA to undertake the GLA fleet review and, with this and the possibility of further commercial opportunities in mind, the Board has secured approval for a study into how the capabilities of NLV POLE STAR might be improved. The report will not be available until the next financial year but it will be a crucial input to the GLA fleet review.

The Board has benefited from a period of stability in its membership throughout the year. The active and knowledgeable participation of both statutory and co-opted Commissioners is evident from the attendance figures contained in this report and is of great benefit to the Board. The only change within the year occurred as a result of change in the office of Solicitor General when we were obliged to say farewell to John Beckett QC who made a significant contribution during his brief term of office. We were however pleased to welcome his successor, Frank Mullholland QC, who in his turn continues to make a valuable contribution to the work of the Board.

The Board also continues to benefit from a very able and stable executive. The only change within the year in this area arose with the departure of Guy Platten, Director of Marine Operations, to take up a more senior appointment as Managing Director of Caledonian Maritime Assets Limited. Guy Platten's contribution to the work of the Board, and in particular the successful delivery of NLV PHAROS, has been gratefully recognised by the Commissioners. The Board accepted his resignation with considerable regret. However, a successful and relatively swift recruitment exercise secured the services of Capt. Phillip Day who is a seasoned professional with a highly relevant track-record which has allowed an almost seamless transition of personnel in this crucial role.

Overall this has been a most satisfactory year of stable and effective performance. The Board has maintained a steady course, at full economical speed, on a well-prepared passage-plan towards a clearly defined land-fall. As a result I am confident that we are well-placed to continue our mission, as set out at the head of this report, to ensure that we continue to provide a service 'for the safety of all'.



Captain G. H. Sutherland, FNI
Chairman



Chief Executive's Review

"To deliver a reliable, efficient and cost-effective Aids to Navigation Service for the benefit and safety of all Mariners"

The Financial Year 2007/8 has seen considerable progress towards the enactment of decisions taken in the previous year and the realisation of the benefits provided. The new Multi Function Tender, NLV Pharos, was delivered in the final days of 2006/7 and 2007/8 has therefore been a proving year for the ship. She has exceeded all expectations in terms of capability, sea-keeping and standards of accommodation, and her only periods of down-time throughout the entire year have been for programmed maintenance. Not only is she a very significant addition to the GLA Fleet, but she also promises great potential as an additional revenue earner; evidence of this is the number of contracts (worth in excess of £4m) which both our ships could have completed if their statutory duties had allowed. There has been progress with NLV Pole Star too. In the first part of the year she spent an extended period of time with Trinity House, assisting with the buoy servicing programme and contributing to the setting up of the Sunk Traffic Separation Scheme. During this assignment, operations revealed a number of shortcomings in her capabilities for southern waters and Department of Transport approval was given to the initiation of a study into how these shortcomings might be remedied and at what cost. That study has produced a very positive report and it will form a very important input to the forthcoming GLA Fleet Review.

In February 2007 the Board of Commissioners took the decision to retain the NLB Headquarters in its current location in George Street, Edinburgh. The Board received Department for Transport approval and Lights Advisory Committee support at the Bilateral Meeting in October 2007. Following this an advertisement was placed in the Official Journal of the European Union for a contract. The contract to carry out a feasibility study to recommend how, with some limited refurbishment, the working environment might be improved and the building better utilised and at what cost. The contract includes further stages to provide professional support if the project proceeds. There was a huge response to the advertisement and, after a rigorous selection process, it is fully expected that a contract will be placed as this Report goes to press.

Work to realise the recommendations of the 2005 Aids to Navigation Review is nearing completion. Following the upgrading of Chicken Rock, the light at Calf of Man was discontinued in June 2007. The lights at Killantringan, and Tod Head were discontinued the following month, and Department for Transport approval has been given to the transfer of the lights at Inchkeith, Fidra and Elie Ness to Forth Ports. In the meantime, a new light was established on the Treshnish Isles in April 2007 and work has been completed to move back into the original tower on the Monach Isles, which NLB vacated in 1942. The roll out of the Automatic Identification System (AIS) as an Aid to Navigation started during the year with a buoy at Milleur Point, but equipment failures have not allowed as swift a progress as originally intended. It is anticipated that a further 6 AIS buoys will be deployed in 2008/9.

The tri-GLA drive, led by the Research and Radionavigation Directorate, to encourage the broader deployment and subsequently mandatory carriage by SOLAS ships of enhanced-Loran (E-Loran) is bearing fruit. A new GLA eLoran service has been established at Anhorn in Cumbria and, most significantly, the United States Congress has voted the funds necessary to expand eLoran in the USA. Achievement of an effective and broad-based eLoran system is a central plank in the GLAs' "2020 - the Vision" to provide a terrestrial complement to the current (and future) satellite global navigation systems. This combination would allow the GLAs further to reduce their estate of physical Aids to Navigation.

On the personnel front, the year has been dominated by the introduction of a new Grading and Performance Management structure for shore staff. This has involved the re-evaluation of every post and their slotting into new eight level grading matrix, accompanied by revised pay levels using the Hay Evaluation process. The result is a system that will be fully Equal Pay proof, fair and transparent, with a Performance Management system based both on objectives and competencies. The majority of shore staff have either seen their pay increased as a result or have been unaffected but, as is inevitable in an exercise of this kind, there are a very small

number of staff who would be disadvantaged were it not for elements of pay protection built into the system, and it will take some time for the new arrangements to bed in.

Otherwise, NLB has again exceeded the availability standards set by the International Association of Marine Aids to Navigation and Lighthouse Authorities and has done so substantially within budget. In the coming year the Board will continue to bear down on costs, to seek efficiencies and to explore the possibilities of greater income generation in order that the level of light dues can remain as low as it is.

A handwritten signature in black ink, appearing to read 'Roger Lockwood', with a stylized flourish at the end.

Roger Lockwood
Chief Executive

The Commissioners



Captain George Sutherland FNI (B, M, Nav, S, R, N)

Elected by the Commissioners. Chairman of the Northern Lighthouse Board since 1 April 2007. Commissioner since 1 August 2003 and currently co-opted until 31 July 2009.

Formerly Director of Marine Operations, Shetlands Islands Council; Fellow the Nautical Institute.



Dr Andrew Cubie CBE (B, M, E, R)

Elected by the Commissioners. Vice-Chairman since 1 April 2007. Commissioner since 14 January 2003 and currently co-opted until 13 January 2009.

Consultant to the firm of Fyfe Ireland LLP, Non-Executive Director; Crown Place PLC, and a number of private companies; Chairman: Quality Scotland Foundation, Napier University Court, Scottish Credit and Qualification Framework, RNL Scotland, The Centre for Healthy Working Lives, British Council Scotland; Trustee VSO and Chairman, Committee of University Chairmen.



The Rt Hon Elish Angiolini QC WS (B, N)

Lord Advocate for Scotland since 12 October 2006. Commissioner since 5 December 2001.

Solicitor General for Scotland 2001-2006; Depute Procurator Fiscal (Airdrie); Lord Advocate's Secretariat - Crown Office; Management Services Group - Crown Office; Senior Depute Procurator Fiscal (Glasgow) 1994-1995; Assistant Procurator Fiscal (Glasgow) 1995-1997; Head of Policy - Crown Office 1997-2000; Regional Procurator Fiscal (Grampian, Highland and Islands) 2000-2001.



Frank Mulholland QC (B)

Solicitor General 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. Appointed Solicitor General on 30 May 2007.



Edward Farquharson Bowen TD QC (B, N)

Sheriff Principal of Lothian and Borders. Commissioner since 17 November 1997.

Sheriff Principal of Glasgow and Strathkelvin 1997-2005; Temporary Judge of the Court of Session since 2000; Advocate 1970; Advocate Depute 1979-83; Sheriff of Tayside, Central and Fife at Dundee 1984-90; QC 1992; Chairman (part-time), Industrial Tribunals 1995-97; Member of Criminal Injuries Compensation Board 1996-97; Governor, Dundee Institute of Technology 1987-90.



R Alastair Dunlop QC (B, M, Nav)

Sheriff Principal of Tayside, Central and Fife. Commissioner since 28 April 2000.

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.



Bruce Alexander Kerr QC (B, M, A, 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 at Glasgow 1994-98; Sheriff Principal of North Strathclyde since 1999.



Brian Lockhart (B, E)

Sheriff Principal of South Strathclyde, Dumfries and Galloway. Commissioner since 1 November 2005. Partner, Robertston Chalmers and Auld, Solicitors, Glasgow 1967-1969; Sheriff of North Strathclyde at Paisley 1979-1991; Sheriff of Glasgow and Strathkelvin 1981-2005; Member of Parole Board for Scotland 1999-2003; President Sheriffs' Association 2003-2005.



Sheriff Principal James Taylor (B, N)

Sheriff Principal of Glasgow and Strathkelvin. Commissioner since 1 October 2005. Partner, AC Morrison & Richards, 1980; Partner, McGrigor Donald, 1988 - Head of Litigation Department, 1992; Attained rights of audience in the Court of Session, Scotland's Supreme Court, 1993; Sheriff of Lothian and Borders, 1998; transferred to Glasgow in 1999; Sheriff Principal of Glasgow and Strathkelvin, 2005.



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



Captain H.M. Close, B.Sc. (B, M, Nav, S)

Elected by the Commissioners. Commissioner since 1 July 2008 and co-opted until 30 June 2011. Senior Principal Consultant with Noble Denton Group, presently on secondment to Total Exploration and Production UK Ltd; Member of Royal Institution of Naval Architects, Chartered Institute of Logistics and Transport, Chartered Management Institute.



Peter Mackay CB (B, E, N, R, A)

Elected by the Commissioners. Commissioner since 7 October 1999 and co-opted until 6 October 2008. Chief Executive, Scottish Office Industry Department 1990-95; Member, Main Board, Scottish Natural Heritage 1997-2003; Member, Competition Commission 1996-2002; Chairman, Pacific Horizon Investment Trust; Member of Cruising and General Purposes Committee Royal Yachting Association - Scotland.



Robert Quayle (B, A, E)

Commissioner nominated by the Lieutenant Governor of the Isle of Man. Commissioner since 26 May 2004 and currently co-opted until 25 May 2010. 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.



Alistair Whyte (B, M, Nav, S)

Elected by the Commissioners. Commissioner since 28 February 2004 and currently co-opted until 27 February 2010. Master Mariner; formerly Deputy Chairman, Red Funnel Group (Holdings) Ltd; Fellow of the Institute of Chartered Shipbrokers; Fellow of the Chartered Institute of Transport.



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 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; Chair of the Justices of the Peace Advisory Committee; 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.



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.

B - Board of Commissioners
M - Managing Board
E - Heritage & Estate Committee
Nav - Navigation Committee

N - Nomination Committee
R - Remuneration Committee
S - Ship Committee
A - Audit & Risk Committee



Commissioners' Report

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The Commissioners of Northern Lighthouses have pleasure in presenting their Report and Accounts for the year ended 31 March 2008. 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.

Management.....

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 **2007/2008** was as follows:-

Law Officers for Scotland

The Rt Hon Elish Angiolini QC WS, The Lord Advocate
Commissioner since 5 December 2001
John Beckett QC, Solicitor General for Scotland
Commissioner from 5 October 2006 until 17 May 2007
Frank Mulholland QC, Solicitor General for Scotland
Commissioner since 30 May 2007

Sheriffs Principal of the Sheriffdoms in Scotland

Sheriff Principal Edward F Bowen TD QC, Sheriff Principal of Lothian and Borders
Commissioner since 17 November 1997 and Chairman from 1 April 2002 to 31 March 2005
Sheriff Principal R Alastair Dunlop QC, Sheriff Principal of Tayside, Central & Fife
Commissioner since 28 April 2000
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 Taylor, Sheriff Principal of Glasgow and Strathkelvin
Commissioner since 1 November 2005
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 2010

Elected by the Commissioners

Peter Mackay CB, formerly Secretary and Chief Executive of the Scottish Office Industry Department

Commissioner since 7 October 1999 and co-opted until 7 October 2008

Captain Kenneth MacLeod, Chief Executive Northern Marine Management Ltd

Commissioner since 25 July 1999 and co-opted until 25 July 2008

Captain George Sutherland FNI, Formerly Director of Marine Operations, Shetland Islands Council

Commissioner since 1 August 2003 and Chairman since 1 April 2007 and co-opted until 31 July 2009

Alistair Whyte

Commissioner since 28 February 2004 and co-opted until 27 February 2010

Nominated by the Secretary of State and elected by the Commissioners

Dr Andrew Cubie CBE

Commissioner since 14 January 2003 and co-opted until 13 January 2009

Lord Provosts

Councillor Liz Cameron JP, The Rt Hon Lord Provost of Glasgow

Commissioner from 15 May 2003 to 3 May 2007

Councillor Robert Winter, The Rt Hon Lord Provost of Glasgow

Commissioner since 17 May 2007

Councillor Lesley Hinds JP, The Rt Hon Lord Provost of Edinburgh

Commissioner from 8 May 2003 to 3 May 2007

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

Commissioner since 17 May 2007

Councillor John Reynolds JP, Lord Provost of Aberdeen

Commissioner since 14 May 2003 to 3 May 2007

Councillor Peter Stephens, Lord Provost of Aberdeen

Commissioner since 16 May 2007

Convener of Highland Council

Councillor Alison Magee

Commissioner from 15 May 2005 to 3 May 2007

Councillor Sandy Park

Commissioner since 17 May 2007

Convener of Argyll & Bute Council

Councillor William Petrie OBE JP DL

Commissioner since 1 April 2001

The average length of service for Commissioners in post as at 31 March 2008 is 5.2 years.

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 2007/2008.....

Roger Lockwood CB

Chief Executive

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

Director of Engineering

Guy Platten AFRIN

Director of Marine Operations to 31 July 2007

Captain Phillip Day

Director of Marine Operations from 1 December 2007

Douglas Gorman ACMA MIIA FIIA

Director of Finance and Administration

Corporate governance.....

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 six 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.

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 six other committees to deal with specific topics:

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

Ship Committee - to formulate policy for current and future shipping requirements

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

Heritage and Estate Committee - to formulate policies covering the generation of commercial income from the Board's estate and policies covering public access and neighbouring property.

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.

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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; considered the case for the refurbishment of the Board's head office and considered the case for establishing subsidiary organisations.

Number of Meetings held in 2007/2008 4

Committee Members Attendance Commissioners

Captain George Sutherland FNI (Chairman)	4/4
The Rt Hon Elish Angiolini QC WS	4/4
John Beckett QC	1/1
Frank Mulholland QC	3/3
Sheriff Principal Edward F Bowen TD QC	3/4
Sheriff Principal R Alastair Dunlop QC	4/4
Sheriff Principal Bruce A Kerr QC	4/4
Sheriff Principal Sir Stephen Young Bt QC	3/4
Sheriff Principal James Taylor	0/4
Sheriff Principal Brian Lockhart	3/4
Councillor Robert Winter	0/3
Councillor The Rev Dr George Grubb	2/3
Councillor William Petrie OBE JP DL	3/3
Councillor Peter Stephen	1/3
Councillor Sandy Park	0/3
Dr Andrew Cubie CBE	4/4
Captain Kenneth MacLeod	0/4
Robert Quayle	4/4
Peter Mackay CB	3/4
Alistair Whyte	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;

Number of Meetings held in 2007/2008 6

Committee Members Attendance Commissioners

Captain George Sutherland FNI (Chairman)	5/6
Dr Andrew Cubie CBE	6/6
Sheriff Principal R Alastair Dunlop	4/6
Alistair Whyte	6/6
Sheriff Principal Bruce Kerr	6/6
Captain Kenneth MacLeod	2/6

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.

c Denotes Chairman
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 commercial activities, financial risks, new ship procurement programme, risk management, estate management together with some testing of software licensing and vehicle management. The Committee also continued to oversee the risks, the new ship project and developed a new approach to managing corporate risks. The National Audit Office joined the Committee for two meetings in 2007/2008. 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 and met on 4 occasions during 2007/2008.

Number of Meetings held in 2007/2008 4

Committee Members Attendance

Robert Quayle (Chairman)	4/4
Sheriff Principal Bruce Kerr QC	4/4
Sheriff Principal Sir Stephen Young Bt QC	3/4
Peter Mackay CB	1/1

Ship Committee

The Ship Committee is responsible for preparing policy on the Board's current and future shipping requirements. During the year the Committee has been involved in advising on the introduction into service of NLV Pharos. The Committee reports directly to the Managing Board.

There were no official meetings held of the Ship Committee.

Number of Meetings held in 2007/2008 0

Committee Members

Captain Kenneth MacLeod (Chairman)

Captain George Sutherland FNI

Alistair Whyte

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 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 and met on 4 occasions during 2007/2008.

Number of Meetings held in 2007/2008 4

Committee Members Attendance

Captain George Sutherland FNI (Chairman)	4/4
Captain Kenneth MacLeod	2/4
Sheriff Principal R Alastair Dunlop QC	4/4
Alistair Whyte	4/4

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 met on 2 occasions during the year.

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 2007/2008 2

Committee Members Attendance

Sheriff Principal Edward F Bowen TD (Chairman)	1/2
Peter Mackay CB	2/2
Captain George Sutherland FNI	2/2
Elish Angiolini QC WS	2/2
Sheriff Principal Bruce Kerr	2/2
Sheriff Principal James Taylor	0/2

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 2007.

The Committee reports directly to the Board of Commissioners.

Number of Meetings held in 2007/2008 3

Committee Members Attendance

Captain George Sutherland FNI (Chairman)	1/3
Peter Mackay CB	1/3
Dr Andrew Cubie CBE	2/3
Sheriff Principal Sir Stephen Young Bt QC	1/3

Heritage and Estate Committee

The Heritage and Estate Committee is responsible for the formulation of policies covering the generation of commercial income from the Board's estate, in partnership with other organisations as required. It is also responsible for the formulation of policies covering public access and neighbouring property, specifically in relation to ex-NLB property.

The Committee reports to the Managing Board and met on 4 occasions during 2007/08.

Number of Meetings held in 2007/2008 4

Attendance at Meetings

Dr Andrew Cubie CBE (Chairman)	4/4
Robert Quayle	3/4
Sheriff Principal Brian Lockhart	2/4
Peter Mackay CB	4/4

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 gives 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, her equipment fit, the competence of her crew, or her 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 14) 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 Maritime and Coastguard Agency (MCA) has recognised this by creating a number of Marine Environmental High Risk Areas (MEHRAs) around Scotland and two MCA emergency towing vessels are permanently stationed in Shetland and Stornoway.

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

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.

A report by MDS Transmodal Limited in association with DTZ Pieda Consulting, commissioned by the (UK) Department for Transport, was published in March 2004 following a full review of the economic impact of light dues on shipping traffic in the UK.

The key findings of the report include:

- that abolition of light dues (in favour of funding aids to navigation, etc, through general taxation) would have little impact on the routing of cargo/freight by sea (i.e. the UK would neither gain nor lose business in relation to continental competitor ports)

- that if light dues were abolished and all the reduction in costs for shipping lines were passed on to UK businesses, it would lead to only a 0.003% reduction in their costs.
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 has remained at 35p. However, pressure from Government and the light dues payer will continue to minimise costs.

Objectives.....

Strategic aim

The aim of the Northern Lighthouse Board is to deliver the 2008-2011 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 the 2008/2009 in particular as below.

- To provide oversight of the delivery of the Corporate Plan through 2008/2009
- To complete the NLV Pole Star feasibility study by 1 June 2008 as a significant NLB input to the GLA Fleet Review.
- To award the contract for the feasibility study, design work and project management for the refurbishment of 84 George Street.
- To complete the projects in the capital programme with particular emphasis on the following

Tender for the Bell Rock Lighthouse structural refurbishment by 31 December 2008
Completion of Monachs Lighthouse final phase of site works by 31 October 2008

- To complete Phase 2 of the AIS AtoN deployment programme by 31 March 2009.
- To implement the new pay arrangements from 1 August 2008.
- To develop HR policies which support NLB employees in improving and broadening their career progression prospects.

Key performance indicators.....

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 Aids to Navigation and Lighthouse Authorities (IALA). They are published in the IALA Aids to Navigation Guide (NAVGUIDE - Edition 5 February 2006).

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".

Changes to data or calculation

A review of these recommendations is due to be carried out by IALA over the next two years. However, the Board is confident that any new standards agreed will continue to be met or exceeded. The Board will also carry out a review of the categorisation of its own lights to ensure they meet the required definitions.

In the past, the GLAs have reported availability statistics using headings not strictly in accordance with current accepted guidance. Since the three

authorities have now adopted the guidance issued by the International Association Marine Aids to Navigation and Lighthouse Authorities' (IALA), these headings have been changed. In particular, they reflect the changes to availability targets being set for individual aids in accordance with each one's navigational importance. However, in moving towards the internationally-agreed performance criteria, it has proved impossible to back-calculate statistics for previous years because of the necessary changes to the groupings of Aids to Navigation.

Running Costs.....

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 RPI.

Source of data

The source of the data is Note 4(b) to the Accounts and the Retail Price Index - All Items.

Performance

See Section "Running Costs".

Changes to data or calculation

In 1996/97 Redundancy Costs were included in the definition of Running Costs and in 1997/98 a change in accounting policy resulted in a change in the apportionment of helicopter costs between Running Costs and Capital Expenditure. In 1999/2000 there was a change in the accounting for Dry Docking and Repair Costs. The table in "Running Costs" shows the adjustments made to restate Running Costs on a comparable basis.

Current and future developments and performance.....

Implementing 2020 The Vision

On 6th October 2004 the three General Lighthouse Authorities (GLAs) - Trinity House Lighthouse Service, the Commissioners of Northern Lighthouses and Commissioners of Irish Lights - announced a vision of the future of Aids to Navigation (AtoN) requirements around the United Kingdom and Republic of Ireland until the year 2020. The comprehensive strategy was welcomed and accepted on behalf of the Government by the Secretary of State for Transport.

This was the second time that the three GLAs had conducted a total, simultaneous review of all their AtoN requirements. The results of the first review were published in 1997/98, and the third is due to commence in late 2008 for delivery in 2009 continuing the five yearly cycle.

After extensive consultation with users and the Nautical Institute, the GLAs published their strategy for the future of aids to navigation to ensure that an efficient, relevant and cost effective service is provided for all mariners.

The maritime world is developing rapidly, as craft get larger and faster and traffic in busy areas such as the Dover Strait increases year on year. This, coupled with rapid advances in technology, mean that there are ever-greater demands placed upon the GLAs resources. However, the GLAs are confident that with a mix of visual and electronic aids, they are well placed to continue to provide a highly efficient service for the future.

2020 The Vision contains the following key findings:

- The widespread reliance on Global Navigation Satellite Systems (GNSS) has encouraged mariners to navigate closer inshore, at night or with reduced visibility - conditions under which they are less used to navigating. The GLAs will need to provide additional AtoN within these areas to mitigate risk.
- With increases in traffic, there is an ever-increasing risk of grounding or collision; AtoN will be used to minimise risk to the vessels and the damage to the marine environment through pollution.
- The GLAs envisage that Automatic Identification System (AIS) technology will significantly enhance and complement existing AtoN. The GLAs will apply AIS technology to selected AtoN during the period of this strategy.
- With concerns about the vulnerability of GNSS, the GLAs consider the provision of a terrestrial radionavigation backup is essential. Currently Loran-C has the potential to fulfill requirements but further investigation and analysis is needed.
- Lighthouses will have a decreasing significance over time and some may be discontinued. Those that remain will have an enhanced role with value added services including: a platform for DGPS, Racons and AIS; directional and sectored lights; and meteorological data.

To deliver this strategy the three GLAs will continue to co-operate with each other and consult with all users to continuously review all its AtoN. The GLAs will continue to participate in IALA to ensure continuous representation of national interests, and to provide a seamless service for the mariner. Furthermore the GLAs will search for new cost effective technology that can deliver an ever more efficient service to ensure that the AtoN requirements of the next 15 years are met.

Following the publication of the strategy document ("2020 The Vision") the GLAs conducted a joint review of Aids to Navigation of the coasts of the United Kingdom and Ireland.

The study was carried out based solely on the minimum navigational requirements and did not take into account any other considerations. It made some recommendations to changes in the provision of Aids to Navigation. It is important to appreciate that the measures recommended will not necessarily take place within the 5 years interval between reviews, however they shape the GLAs' continuing capital works and buoyage programme contained within individual corporate plans.

The principal recommendations from the Commissioners of Northern Lighthouses were:

- Upgrade the minor lights at Chicken Rock (complete) and Monachs (due completion summer 2008) to major lights
- Discontinue the major lights at Calf of Man, Killantringan, Tod Head and Barns Ness (all complete)
- Transfer a number of other lights and beacons to local Harbour Authorities (ongoing)
- Establish up to 6 new minor lights (4 established by spring 2008)
- Light up to 15 currently unlit beacons (ongoing)
- Establish a further 5 Racon stations at Lady Isle, Haskeir, Inner Voder and the buoys at Bo Vich Chuan and Whale Rock (all complete)
- Discontinue all 12 remaining fog signals (complete)
- A net increase of 2 buoy stations

Previously reviews have been almost wholly subjective based on user consultation and localised traffic analysis by radar. The next review for the first time will utilise vessel AIS track analysis, to provide a more objective process (still balanced by consultation) for the whole of the coasts of United Kingdom and Ireland.

Head Office Review

In February 2007 the Commissioners took the decision that the Board's Headquarters would remain at 84 George Street, Edinburgh. This decision was taken after extensive work involving advice from two separate Estate Agencies (one of which was a corporate office specialist), discussions with property developers and a Staff Survey. The final analysis showed that there would be no financial benefit from a move to an alternative location and indeed that either option (stay or move) would incur a cost. It is now

intended to carry out some limited refurbishment to the building in order to provide facilities which currently do not exist, to make better use of the space available and to improve the working environment.

We are currently tendering for the provision of consultancy services for the refurbishment project. The project will have seven phases which include Consultant and CDM Co-ordinator appointment, feasibility study, outline planning permission, approvals process, appointment of a works contractor, project management of the works and handover/post construction. Each phase will be subject to discussion with the Department for Transport.

E Navigation

The GLA's including the NLB are actively involved in developing the concept of E(Enhanced) Navigation in consort with DfT and other applicable agencies and bodies. To provide UK input to IMO on the matter as well as through membership of the IALA eNAV Committee.

e-Navigation is the harmonised collection, integration, exchange, presentation and analysis of marine information onboard and ashore by electronic means to enhance berth to berth navigation and related services for safety and security at sea and protection of the marine environment.

IMO NAV 53 agreed that the core objectives of the e-Navigation concept using electronic data capture, communication, processing and presentation should include: facilitation of safe and secure navigation of vessels having regard to hydrographic, meteorological and navigational information and risks.

The development of the e-Navigation strategy has followed a top-down, holistic approach through the IMO Correspondence Group and in close cooperation with the IALA e-Navigation Committee (e-NAV).

As part of e-Navigation strategy it is recognised that GNSS is the primary source of position, navigation and timing (PNT) in many applications, including maritime. However, the vulnerability of GNSS to accidental or deliberate interference is well known and the need for more than one PNT source is recognised.

The IMO Sub-Committee on Safety of Navigation at NAV53 'agreed that there was a need to provide an internationally agreed alternative system for

complementing the existing satellite navigation, positioning and timing services to support e-Navigation'.

Loran/Chayka is the only wide area terrestrial radio-navigation system currently available that could serve as a complement or backup to GNSS. Enhanced Loran (eLoran) is the next generation of Loran; it could provide position and timing accuracy comparable with GNSS. eLoran is likely to become a component of the World Wide Radio Navigation Plan (WWRNP) being developed by IALA.

A number of countries with Loran/Chayka facilities have now decided to retain them as a backup or complement to GNSS. In particular, the US has recently announced its intention to "undertake development of enhanced Long Range Navigation . . . as a backup for the Global Positioning System (GPS) . . . as a first step toward providing back-up capability for critical infrastructure that depends on GPS for position, navigation and timing."

The GLAs of UK and Ireland have worked hard in conjunction with the Government to establish the position of eLoran as a recognised supplement to GNSS.

The GLA's own program of trials of eLoran at a BT Radio site near Rugby have culminated in the establishment of a permanent transmitter at VT Communications site at Anthorn in Cumbria. The GLA's research department continue to progress the establishing of eLoran.

Automatic Identification System (AIS) is a VHF marine band based ship-to-ship and ship-to-shore system that can identify and track the movement of ships up to 30 miles out from the UK's coastline. Large ships, those of 300 gross tonnage or more, have been required by the International Maritime Organisation to have had an AIS system installed for tracking purposes since 2004.

However, the technology behind AIS has the potential to offer an even broader range of services: from a more responsive and lower-cost Aids to Navigation; to assisting Search and Rescue services and Counter Pollution activity; to building a comprehensive database of shipping movements along the coastline.

AIS technology will form a key building block in an 'e-navigation' system of the future.

(AIS) now formally recognised as an AtoN this is a major aspect of AIS's potential and one which Government, is keen to maximise. Its use in AtoNs can be either real or virtual:

- **AtoN AIS Station:** AIS station fitted to an existing physical Aid to Navigation (e.g. buoy or lighthouse) provides real-time status and positive identification of the AtoN. This equipment can also provide additional information to surrounding ships or back to a shore authority on e.g. actual tidal height and local weather. In the case of a floating aid an accurate position (corrected by DGNSS) can be provided to check that it is on-station, and real-time 'health' information can be sent back for performance monitoring. A variant ('synthetic AtoN') entails using a communication link from the AtoN to an AIS-shore station, providing AIS broadcasts for the AtoN where it is impractical or uneconomic to fit the AIS unit to the AtoN itself.
- **Virtual AtoN:** In other cases it may be appropriate to create an apparent ('virtual') AtoN on a display for a certain location, even though there is no physical AtoN there. The associated information would clearly identify this as a virtual AtoN and safeguards would be needed against false representations. There are some cases where virtual AtoN could be very useful, for example marking a new wreck until an actual buoy can be established, although the effectiveness of AIS as an AtoN reduces at sites close to the 30-mile limit.

The NLB has carried out a number of equipment trials relating to AIS to establish best use and has now commenced establishment of AIS on AtoN's identified by navigational review as best suited for AIS.

Commercial Work

In 1997 the Merchant Shipping and Maritime Security Act gave the General Lighthouse Authorities power to exploit spare capacity and enter into commercial contracts. This has allowed the vessels, lighthouses, and base to be utilised as income streams but prevents consultancy and the acquiring of equipment solely for commercial activity.

Careful consideration is made to ensure any activity does not interfere or conflict with statutory duties. The Board is also careful to ensure there is

no unfair advantage in pricing regime or risk to the GLF. Activities undertaken have and continue to include contract buoy maintenance, survey work, oil wellhead marking, provision and monitoring AtoN of off-shore structures particularly during decommissioning phases, and utilisation of lighthouses for third party equipment. Other avenues continue to be sought. 2007/08 brought revenue of £700,000.

The Draft Marine Navigation Bill currently out for consultation if introduced will allow the GLAs to provide consultancy and acquire equipment solely for commercial activity.

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 included based on the navigation and engineering importance of the project. Other elements of the plan cover investment on buoyage, ships, plant & equipment and vehicles.

Trading Company and Heritage Trust

The Board is in advanced discussions with the Department for Transport over the establishment of a trading subsidiary and a heritage trust.

This will ensure that:

- The Board is responsible solely for its statutory duties under the Merchant Shipping Act 1995, as amended
- The Trading Company will be able to exploit tangible and intangible assets owned by the Board
- The Heritage Company will be able to safeguard lighthouse heritage.

The Trading Company will therefore take over existing trading activities of NLB i.e. nine holiday cottages and the sale of calendars, cards, etc.

The Trading Company will be wholly owned by the Commissioners of Northern Lighthouses which is a corporate body in its own right. NLB as sole shareholder will control the affairs of the Trading Company albeit that the day-to-day

management of the Trading Company will be the responsibility of the Directors.

NLB will lease surplus, non-operational property to the Trading Company at peppercorn rents and assign the right to use NLB's European Community Registered Trade Marks.

The Trading Company's business will be to:

- develop the leased property and release its holiday letting or other potential
- exploit the NLB brand by selling lighthouse-related items

The Heritage Company will be registered with the Office of the Scottish Charity Regulator. The Heritage Company's aim will be 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 Company 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.

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 will end on 25 July 2008. The House of Commons Transport Committee has also announced it will scrutinise the draft Bill and provide 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. The Government did not include the draft Bill in the draft

legislative programme announced on 14 May 2008 but commented that "this bill will be brought forward as soon as the parliamentary time allows". The GLAs remain hopeful that the Bill, that would also implement the Nairobi International Convention on the Removal of Wrecks 2007, will get the required parliamentary time.

Public Affairs

The Board is monitoring a number of issues that could directly or indirectly impact on its duties as a General Lighthouse Authority, these include:

- Marine and Coastal Access Bill
- Transport Security Bill

International Representation

NLB continues to make a significant contribution to the workings of the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA) both in terms of committee involvement and committee chairmanship. In October 2007, NLB's Navigation Manager, Peter Douglas, was invited to be one of only four overseas speakers at symposium on e-Navigation organised by the Japanese Coast Guard; this was a singular reflection of his standing in the international environment. In March 2008 NLB Oban hosted an internal demonstration of the Maritime Use (MARUSE) of Galileo type signals. This exercise, involving the live involvement of NLV Pharos, was the first such demonstration in the United Kingdom.

Accreditations and Awards

NLB is now accredited to ISO 9001, OHSAS 15001, ISO 27001 and ISM, with work in hand to be accredited to ISO 14001 (Environmental Policy). NLB has also earned the Bronze Award for Scotland's Health at Work and is progressing towards the Silver Award.

Resources.....

Ships

NLV Pharos now in her second year of operation with the NLB has proved to be, as hoped, a valuable asset to the organisation. In her first year of operation whilst under warranty there were few defects and all of a relative minor nature. These have all been rectified by the builder Remontowa or by the Board on their behalf with appropriate subsequent transfer of funds expected. The vessel has undertaken a full programme of works utilising her full capability and has undertaken some commercial work.

NLV Pole Star awaits the results of the forthcoming fleet review to confirm (or not) her position as the GLAs' roving Medium Aids to Navigation Tender (MANT). In the meantime she has continued to be a workhorse for the NLB efficiently performing her statutory inspection and buoyage duties along with commercial contract buoy work. She has also undertaken inter-GLA work in both Trinity House and Irish waters during the period.

Bases

The Oban support base has continued to prove itself as an efficient, flexible, and marketable resource. Providing support to both Engineering and Operations departments, the base houses an Engineering stores and test facility, alongside buoy refurbishing facilities. Although a home port for NLB tenders, the base has successfully utilised its berth spare capacity for commercial cruise vessels with statutory work unhindered. Throughout the year the base supports operations for the routine and emergency maintenance of all types of AtoN as well as capital works.

Two small facilities are being staffed and maintained in Orkney and Shetland.

People

People remain a vital resource to the NLB. The Board has just completed a full Pay and Grading Review for Shore Based Staff, the results of the review ensures that the Board is compliant with Equal Pay Legislation and that our staff are rewarded fairly for the jobs they do.

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 Disability Discrimination 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.

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 2007/2008, 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.

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Human Resources Policies

The Human Resource 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. In the coming year new and revised policies that will be implemented include 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 General Lighthouse Authorities' (GLAs) by the Research and Radionavigation Directorate (R&RNAV) based at Harwich. The Director of R&RNAV is funded by Trinity House, but reports to all three Chief Executives. While R&RNAV continues to concentrate on a wide field of research and to provide advisory and technical services to the individual GLAs, much effort has been given to the promotion of enhanced Loran (eLoran). A contract was signed with VT Communications in May 2007 to provide an updated eLoran service (based at Anthorn in Cumbria) and this has been followed by a decision in the US Congress to fund eLoran in the USA. It is very encouraging to see the tide flowing so strongly in favour of eLoran, which the GLAs see as a vitally important terrestrial complement to GNSS at which, in 2020 The Vision, is seen as a significant enabler in reducing the number of traditional Aids to Navigation.

Environmental issues.....

The Board seeks to develop its Environment Management policies in a manner fully consistent with Government initiatives and broad public opinion. Thus, measures to protect the environment and ensure sustainable development figure very strongly in the Board's consideration of modernisation, improvement and the use of appropriate future technologies at all of our establishments and facilities. The Board is seen as a leader in the provision and improvement of renewable energy sources for navigational aids, principally through the installation of solar-electric power systems occasionally supplemented by wind power while reducing our dependence on carbon based energy. The Board is currently implementing an Environmental Management System compliant with BS EN ISO14001:2004 and applicable to its activities in all operational areas. Thus, the Board is able to demonstrate compliance with UK and Regional Statutory obligations as well as International Environmental standards whilst reducing the Board's impact on the environment.

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 GLAs but posed a lesser threat to the GLF - 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 £338M as at 31 March 2008 on an accrued benefit valuation cash equivalent basis, comprising prospective benefits due to active members, deferred pensioners and pensioners. However, since the last Review the GLAs had 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 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 of sinking. (Also an operational risk)

Relationships.....

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 (Incorporating Financial Memorandum and Management Statement)

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 and 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.

Inter-General Lighthouse Authority co-operation

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 Co-ordinating Group (JCG) of the Chairmen and Chief Executives of the GLAs was established in 1992 to review high level policy matters including those which concern the relationships between the GLAs and the UK Department for Transport and the Irish Department of Transport. The JCG is the major decision-making body on inter-GLA co-operation and the co-ordination of common policies. It keeps under constant review the GLAs' joint strategy on matters of mutual interest so that they can agree joint or complementary policies relating to the management of the GLAs subject to approval and consideration by each GLA Board.

User consultation

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.

Financial position.....

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 rentals, external contract 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 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.

A Revaluation Reserve has been created with the difference between the current market value and written down book values of investment properties.

Going Concern

These Accounts are prepared on the going concern basis since the Directors are satisfied that the Board's activities are sustainable for the foreseeable future.

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 Balance Sheet for the first time in 2003/2004 amounts to £72m as at 31 March 2008 - 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 during the year 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 2008 the actuaries estimate that contributions made by scheme members of £44M 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 2008 are contained in the attached Accounts and Notes and show a deficit (including Depreciation) on Revenue Account amounting to £4,881,000 transferred to the Accumulated Reserve (2006/2007 - £2,478,000).

For 2007/2008 the Board's performance against the Cash Limits set by the Department for Transport is summarised as follows:

	Cash Limits £000	Actual Expenditure £000	Variations £000
Running Costs	14,620	13,746	-874
Expenditure on behalf of all GLAs	65	35	-30
Other Costs	5,424	5,658	234
Capital Expenditure	4,436	2,164	-2,272
Total	24,545	21,603	-2,942

The adverse variation in "Other Costs" is due to one significant pension payment. It was agreed with the Department for Transport that an increase in the Cash Limit for "Other Costs" would not be made as the additional cost could be contained within the Total Cash Limit.

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

	Expenditure on behalf of all			Capital
	Running Costs	GLAs	Other Costs	
	£000	£000	£000	£000
Expenditure for measuring Cash Limit Performance	13,746	35	5,658	2,164
NLV Pharos lease payments			-1,680	
NLV Pole Star lease payments			-637	
Rounding Difference				-1
FRS 17 adjustments			-939	
Running Costs (shown separately)			13,746	
Depreciation			3,673	
Provisions made			783	
Disclosed in Annual Report & Accounts	13,746	35	20,109	2,163
	See Note 4b		See Note 4b	
Analysed to:				
	Tangible Fixed Assets Note 9			2,123
	Intangible Fixed Assets Note 8			40
				2,163

Expenditure on Tangible Fixed Assets

During the year to 31 March 2008 the Board’s expenditure on tangible fixed assets was :-

	2007/2008	2006/2007
	£000	£000
Assets in Course of Construction	1,141	904
Land and Buildings	174	278
Buoys	232	311
Tenders and Ancillary Craft	125	17,789
Plant & Equipment, vehicles, etc	426	555
Computer Equipment	25	63
Total	2,123	19,900

The Accounts Direction provides that fixed assets shall be stated at historic cost less depreciation. During 2005/2006 the Board obtained independent valuations for the Headquarters building and the lighthouse 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	Net Book Value	Difference
	£000	£000	£000
NLB Edinburgh	4,020,000	285,000	3,735,000
NLB Oban	1,015,000	3,424,000	-2,409,000

Former Lightkeepers’ houses that are retained as holiday cottages are treated as investment properties for the purposes of Statement of Standard Accounting Practice 19 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.

	Target	Actual	Variance
	£	£	£
Cash withdrawn from GLF	22,500,000	19,970,000	-2,530,000

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.

Post Balance Sheet Events

There are no post Balance Sheet events.

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 2008 bears to the amount invoiced by suppliers during the year equated to a 19 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. Notes 5 and 6 of the 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.

Note 7 reflects 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.

	Roger Lockwood	Douglas Gorman	Guy Platten to 31 July 2007	Moray Waddell	Phillip Day from 1 December 2007
£000 Note 1 Salary including performance pay	90-95	80-85	25-30* 70-75**	75-80	20-25* 65-70**
£000 Note 2 Benefits in kind	-	-	-	-	-
£000 Note 3 Real increase in pension and related lump sum from 31 March 2007	n/a	0-2.5/2.5-5.0	0-2.5	0-2.5/0-2.5	n/a
£000 Note 4 Total accrued pension at 31 March 2008 and related lump sum	n/a	10-15/35-40	20-25 at 31 July 2007	20-25/45-50	n/a
£000 Note 5 Cash Equivalent transfer value at 31 March 2007	21	216	237	283	n/a
£000 Note 6 Cash Equivalent Transfer value at 31 March 2008	54	272	278	346	23
£000 Note 7 Real increase in Cash Equivalent Transfer Value after adjustment for inflation and changes in market investment factors	30	25	8	13	n/a
Note 8 Employer contribution to partnership pension account including risk benefits cover	-	-	-	-	-

* pro-rated

** full-time

Service Agreements

Each of the Executive Directors has a Service Agreement which can be terminated either by reaching the defined retirement age or 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;

were each paid total fees of £9,468 per annum and were eligible for an additional payment of £474 pro rata for each day exceeding 20 days in the year unless he/she is Chairman or Vice Chairman when a total fee of £18,936 and £12,624 respectively per annum is payable. The total amount paid in the year, including social security costs, was £76,392 (2006/2007 - £67,870).

Co-opted Commissioners' remuneration is set by the Board as a whole on the advice of the Department for Transport and who approved an increase of 2.5% with effect from 1 April 2007.

Co-opted Commissioners are appointed for three years but may be re-appointed for further terms up to a normal limit of 10 years.

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

The Chairman of the Northern Lighthouse Board in 2007/2008 was a co-opted Commissioner and was therefore paid.

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:

	2007/08	2006/07
	£	£
Captain George Sutherland	18,936	25,488
Dr Andrew Cubie	12,624	9,228
Captain Kenneth MacLeod	9,468	9,228
Peter Mackay	9,468	17,460
Robert Quayle	9,468	9,228
Alistair Whyte	9,468	9,228

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Scope of Responsibilities

As Chief Executive from 1 May 2006, I have held 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.

As Chief Executive I have the responsibility to act as if Accounting Officer for the Northern Lighthouse Board. The Accounting Officer for the General Lighthouse Fund has not delegated Accounting Officer responsibility to any of the three General Lighthouse Authorities. However, 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 the Board's policies, aims and objectives, to evaluate the likelihood of those risks being 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 2008 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

The process involves a timetable for the committees of the Board and the Chief Executive and Directors to review and update the assessment of business risks throughout the year and then to report to the Board on these reviews. The three General Lighthouse Authorities conduct a triennial risk review. This review and the resulting recommendations and actions is discussed with key stakeholders through the Lighthouse Finance Committee. The review includes an assessment by external risk management consultants. Progress on implementing the recommendations is monitored by the Audit and Risk Committee.

The risk and control 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. Personal objectives are agreed to ensure that the risks are regularly reviewed throughout the year. The Audit and Risk Committee also invites managers to discuss risk management issues at committee meetings.

Data Handling

During the year we started 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 an immediate review 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 of the building
- continuing accreditation to ISO 27001 (Information Security Management)

Review of effectiveness

In his annual report the Head of Internal Audit said “I can provide substantial assurance that the Northern Lighthouse Board’s established risk management, control and governance arrangements are operating in a generally effective manner, although weaknesses in some important areas and opportunities to improve working practices were identified during 2007/2008.

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, concerning internal control;
- regular reports by 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;
- 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;
- regular risk reviews at Chief Executive/Directors meetings.
- regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
- an annual review of significant business risks undertaken by each Director detailing how those risks are managed;
- compliance with the applicable best practice principles set out in HM Treasury’s July 2005 Code of Good Practice for Corporate Governance.

Significant internal control problems

There have been no significant internal control problems in the year ended 31 March 2008 and up to the date of approval of the annual report and accounts.



Roger Lockwood
Chief Executive

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

Three year rolling averages

In the past, the GLAs have reported Availability statistics using headings not strictly in accordance with current accepted guidance.

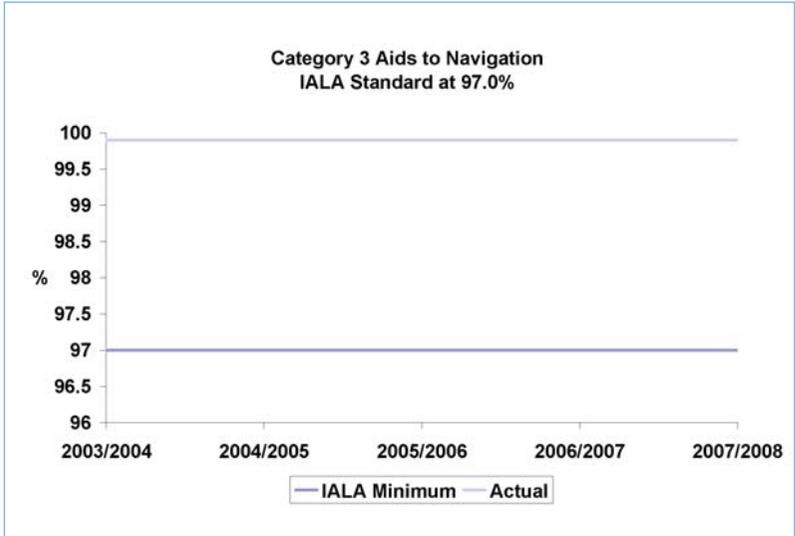
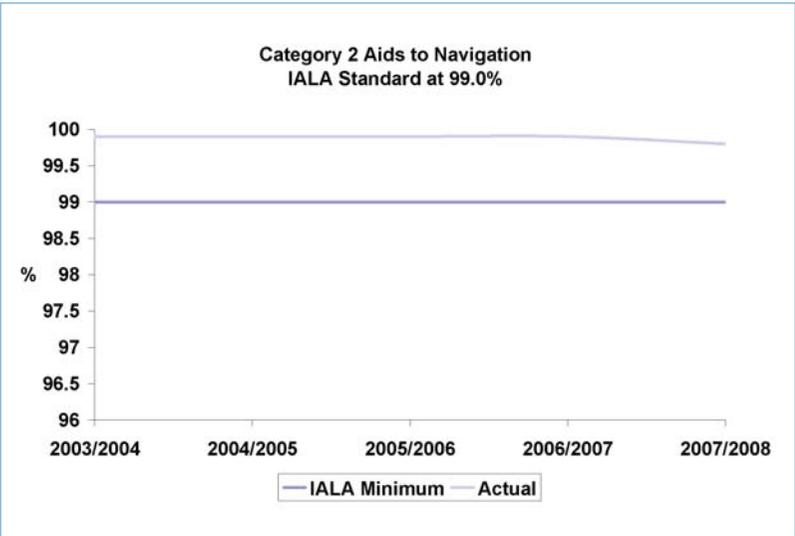
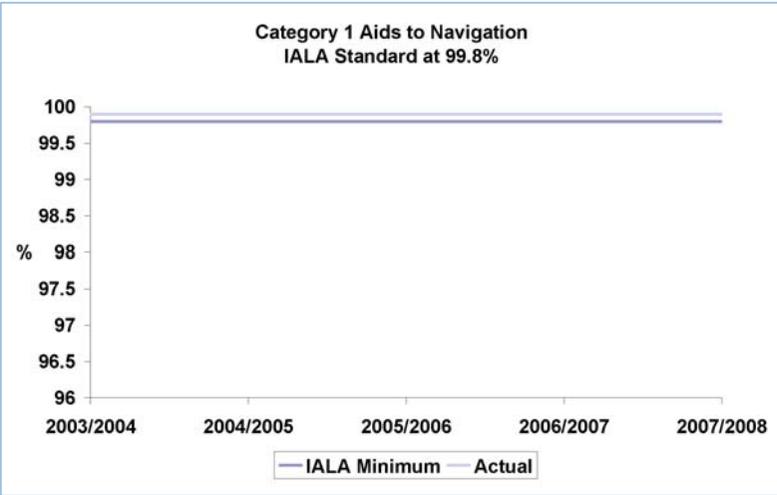
Since the three authorities have now adopted the guidance issued in the International Association of Marine Aids to Navigation and Lighthouse Authorities' (IALA) document "Aids to Navigation Guide", these headings have been changed. In particular, they reflect the changes to availability targets being set for individual aids in accordance with each one's navigational importance.

There are three categories of navigational importance and their availability targets are as follows:

- Category 1 99.8%
- Category 2 99.0%
- Category 3 97.0%

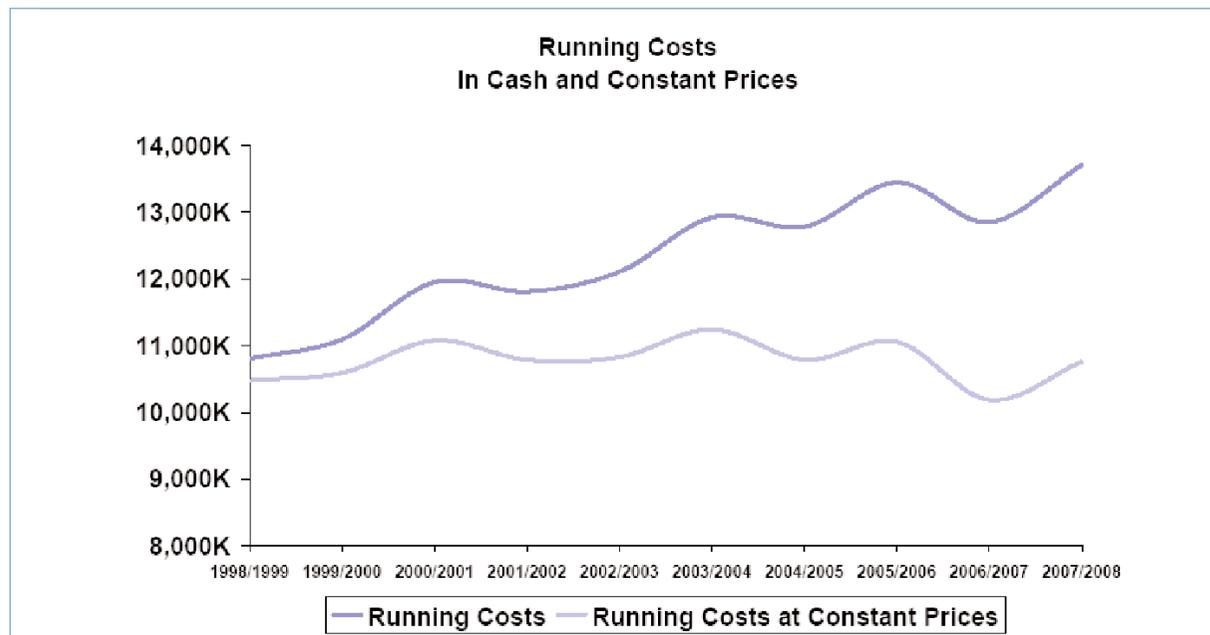
However, in moving towards the internationally-agreed performance criteria, it has proved impossible to back-calculate statistics for previous years because of the necessary changes to the groupings of Aids to Navigation.

ATON TYPE	CAT	IALA MIN	2003/2004		2004/2005		2005/2006		2006/2007		2007/2008	
			ACT	DIFF								
BUOYS	1		99.9%	0.1%	99.9%	0.1%	99.8%	-	99.8%	-	99.9%	0.1%
LIGHTS	1		99.8%	-	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%
RACONS	1		99.9%	0.1%	100.0%	0.2%	100.0%	0.2%	99.9%	0.1%	99.9%	0.1%
TOTAL	1	99.8%	99.9%	0.1%								
BUOYS	2		99.9%	0.9%	99.9%	0.9%	99.8%	0.8%	99.8%	0.8%	99.8%	0.8%
LIGHTS	2		99.9%	0.9%	99.9%	0.9%	99.9%	0.9%	99.9%	0.9%	99.8%	0.8%
TOTAL	2	99.0%	99.9%	0.9%	99.9%	0.9%	99.9%	0.9%	99.9%	0.9%	99.8%	0.8%
BUOYS	3		99.8%	2.8%	99.9%	2.9%	100.0%	3.0%	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%
TOTAL	3	97.0%	99.9%	2.9%								



Running Costs in Cash and Constant Prices

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Running Costs £000	10,810	11,099	11,955	11,596	12,110	12,922	12,783	13,447	12,853	13,746
Variance %		2.7	7.7	-3.0	4.4	6.7	-1.1	5.2	-4.4	6.9
Running Costs at Constant Prices £000	10,810	10,926	11,427	10,921	11,170	11,596	11,125	11,403	10,507	10,791
Variance %		1.1	4.6	-4.4	2.3	3.8	-4.1	2.5	-7.9	2.7
Average RPI	163.8	166.4	171.3	173.9	177.5	182.5	188.2	193.1	200.3	208.6
Annual Change %		1.6	2.0	1.5	2.1	2.8	3.1	2.6	3.7	4.1



In 1999/2000 there was a change in the accounting policy for Dry Docking and Repair Costs. The following table shows the adjustment made to restate Running Costs on a comparable basis.

	1998/99	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Running Costs as shown in Note 4b	10,810	10,850	11,824	11,527	12,013	12,810	12,647	13,352	12,853	13,746
Dry Docking & Repair Costs		249	131	69	97	112	136	95	0	0
Adjusted Running Costs	10,810	11,099	11,955	11,596	12,110	12,922	12,783	13,447	12,853	13,746

Income and Expenditure Account

INCOME AND EXPENDITURE ACCOUNT

INCOME

Advances from the General Lighthouse Fund

Other Operating Income

EXPENDITURE

Staff Costs

Pension Costs

Amortisation

Depreciation

Other Operating Charges

TOTAL OPERATING COSTS

OPERATING SURPLUS

Notional Credit on Net Liabilities

Interest on Pension Scheme Liability

Gain/(Loss) on disposal of Fixed Assets

Interest Receivable

Interest Payable

Total

NET OPERATING DEFICIT OF THE NORTHERN LIGHTHOUSE BOARD

NET EXPENDITURE ON BEHALF OF ALL GENERAL LIGHTHOUSE AUTHORITIES

REVERSAL OF NOTIONAL CREDIT ON NET LIABILITIES

-DEFICIT/SURPLUS FOR THE FINANCIAL YEAR CARRIED TO THE ACCUMULATED RESERVE

All results are derived from continuous operations

Note

2007/08

2006/07

£000's

£000's

19,970

24,622

713

698

20,683

25,320

7,274

7,004

2,491

1,537

95

90

3,578

4,032

6,672

6,053

20,110

18,716

573

6,604

1,488

1,427

-3,877

-3,994

-317

277

23

19

-1,248

-391

-3,931

-2,662

-3,358

3,942

-35

-37

-1,488

-1,427

-4,881

2,478

Statement of Total Recognised Gains and Losses

<u>STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</u>	Note	2007/2008 £000	2006/2007 £000
DEFICIT FOR THE FINANCIAL YEAR		-4,881	2,478
Actuarial Gain	17	8,671	-9,542
Net Pension Transfers	17	-70	34
Unrealised surplus on revaluation of properties	18	95	-125
TOTAL SURPLUS FOR THE FINANCIAL YEAR		3,815	-7,155

Balance Sheet as at 31 March 2008

<u>BALANCE SHEET</u>	Note	31 March 2008	31 March 2007
		£000's	£000's
Fixed Assets			
Intangible Assets	8	176	226
Tangible Assets	9	54,872	56,613
Investment Assets	10	1,065	970
		56,113	57,809
Current Assets			
Stock	11	567	518
Debtors	12	473	754
Cash in Bank and in hand	13	270	1,025
Total		1,310	2,297
Creditors - amounts falling due within one year	14	-2,637	-2,678
Net Current Assets		-1,327	-381
Total Assets less Current Liabilities		54,786	57,428
Creditors - amounts falling due after more than one year	15	-22,398	-23,473
Provisions for Liabilities and Charges			
Provisions	16	-944	-161
Net Assets excluding pension liability		31,444	33,794
Pension Liabilities	17	-72,020	-78,247
Total Assets less all Liabilities		-40,576	-44,453
Financed By:			
Accumulated Reserve	18	-41,638	-45,428
Revaluation Reserve	18	887	785
Government Grant Reserve	18	175	190
Total		-40,576	-44,453

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The financial statements on pages 45 - 86 were approved by the Commissioners of Northern Lighthouses on 22 September 2008, and signed on its behalf by:

A handwritten signature in black ink, appearing to read "Richard Boyd", written over a horizontal dotted line.

Chairman

A handwritten signature in black ink, appearing to read "Angus Lee", written over a horizontal dotted line.

Chief Executive

22 September 2008

Date

Cash Flow Statement for the year ended 31 March 2008

CASH FLOW STATEMENT

Cash Flow Statement

	2007/2008 £000	2006/2007 £000
Net cash inflow from Operating Activities (Note 1)	3,740	8,095
Net Expenditure on behalf of all General Lighthouse Authorities	-35	-37
Returns on Investments and Servicing of Finance (Note 2)	-809	-548
Capital Expenditure (Note 3)	-2,152	-17,055
Net Cash Inflow before Financing	744	-9,545
Financing	-1,499	-7,290
New Finance Lease	0	17,539
Increase/(Decrease) in Cash	-755	704
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS		
(Decrease)/Increase in cash	-755	704
Cash outflow from financing	1,484	7,299
	729	8,003
New finance leases and other movements	0	-17,514
	729	-9,511
Net debt at 1 April 2007	-23,932	-14,421
Net debt at 31 March 2008	-23,203	-23,932

NOTES TO THE CASH FLOW STATEMENT

Note 1

Reconciliation of Operating Deficit to Net Cash Inflow for Operating Activities

	£000's	£000's
Operating Surplus	573	6,604
Net Pension Expenditure	-3,135	-2,995
Current Service Cost	1,702	1,456
Depreciation	3,673	4,122
Increase/(Decrease) in Provisions	783	-386
(Increase)/Decrease in Stocks	-49	-62
(Increase)/Decrease in Debtors	-559	-196
Increase/(Decrease) in Creditors	752	-448
Net Cash Inflow from Operating Activities	3,740	8,095

Note 2

Return on Investments and Servicing of Finance

Interest Received	23	19
Interest element of finance lease rentals	-832	-567
	-809	-548

Note 3

Capital Expenditure

Payments to acquire tangible fixed assets	-2,084	-20,394
Payments to acquire intangible fixed assets	-40	-47
Receipts from sales of tangible fixed assets	-28	3,386
	-2,152	-17,055

Note 4

Financing

Capital Element Of Finance Lease Rentals	1,484	7,299
Movement in Government Grant Reserve	15	16
	1,499	7,315

Note 5

Analysis of the changes in net funds/(debts)

	1 April 2007	Cash Flow	Non-Cash	31 March 2008
	£000	£000	£000	£000
Cash at Bank and in hand	1,025	-755	0	270
Finance Leases	-24,957	1,484	0	-23,473
Total Funds/(Debt)	-23,932	729	0	-23,203

Notes to the Accounts for the year ended 31 March 2008

Accounting policies.....

(a) Accounting convention

These Accounts have been prepared in accordance with the 2007/08 Government Financial Reporting Manual (FRm) issued by HM Treasury. The accounting policies contained in the FRm follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FRm 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 on 10 March 2003.

(b) Going concern

The balance sheet at 31 March 2008 discloses net liabilities of £40,575,000. 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 FRS 17: retirement benefits.

(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
Land and Buildings	
Land	Not Depreciated
Lighthouse (building structures)	50 years
Lighthouse improvement Buildings	25 years or remaining life if less 50 years
Tenders & Ancillary Craft	
Tenders*	25 years or remaining life if less
Tenders (Dry Dock and Repair)	Depreciated over 24 months until next dry docking
Work Boats	10 years
Buoys	
Bodies	25 years or remaining life if less
Solarisation Costs	10 years
Plant and Equipment	
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) Stocks

Stocks of consumables, 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 Lighthouse Research Policy 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 balance sheet and depreciated as if owned. The interest element of the rental obligation is charged to the Income and Expenditure Account 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 Creditors, both within one year and over one year.

Expenditure incurred in respect of operating leases is charged to income and 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 2008 are translated at the rate ruling at the balance sheet 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 7.

(l) Notional Cost of Capital

The Income and Expenditure Account includes a notional cost of capital at 3.5% of the average net assets during the year (3.5% in 2006/07). This amount is reversed after the line showing the surplus or deficit for the year.

(m) Government Grants

Grants received in respect of eligible expenditure charged to the Income and Expenditure Account 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 Income and Expenditure Account 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 Statement of Standard Accounting Practice 19 in that they could be disposed of without affecting the operation of the lighthouse and they are not retained to fulfil the Board's statutory responsibilities.

Open market valuations have been completed in March 2008 at each of these properties by Graham and Sibbald, Chartered Surveyors. These properties are included in the Balance Sheet at the open market valuation.

(o) Provisions

The Board makes provisions for liabilities and charges in accordance with FRS 12 Provisions, Contingent Liabilities, and Contingent Assets where, at the Balance Sheet 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.

2. Other operating income

	2007/08	2006/07
<u>Note 2 - Other Operating Income</u>	£000	£000
Buoy Rental	134	104
Property Rental	62	21
Other Commercial Income	481	495
Sundry Receipts	36	78
Total	713	698

3. Staff and pension costs

	2007/08	2006/07
<u>Note 3 - Staff & Pension Costs</u>	£000	£000
<u>Note 3(a) - Staff Costs</u>		
Wages and Salaries	6,532	6,491
Social Security Costs	505	513
Redundancy Costs	237	0
Total	7,274	7,004

Staff costs capitalised in 2007/2008 were NIL (£19,000 - 2006/2007).

Average monthly number of employees

Lighthouses

Monitor Centre

Lighthouse Attendants, etc

Tenders

Bases and Workshops

Head Office

Total

Including Part-Time Staff

Not included in these numbers are:

Temporary officers and crew - Full Time Equivalent

Temporary office staff - Full Time Equivalent

2007/08

2006/07

5

5

65

67

64

68

37

41

90

91

261

272

76

78

3.2

3.5

0.8

1.3

2007/08
£000

2006/07
£000

Note 3(b) - Pension Costs

Operating Costs

1,702

1,456

Employer's contribution to other pension schemes

706

97

Annual Compensation Payments

83

-16

Total

2,491

1,537

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4. (a) Other operating charges

	2007/2008	2006/2007
	£000	£000
Communications	336	355
Fuel, Water, Heat and Light	354	276
Helicopter Flying	788	775
Information Technology	387	298
Insurance	238	169
Legal and Consultancy Costs	398	455
Other Staff-related Costs	479	415
Repairs and maintenance	1,756	1,535
Travelling, subsistence and hospitality	953	1,001
Ships' fuel	718	371
Termination payment for NLV Pharos IX	0	190
Commercial Work	0	0
Others	265	213
Total	6,672	6,053

Auditors' remuneration is met directly by the General Lighthouse Fund. The Board's share of the audit remuneration was £ 36,500 (2006/2007 - £34,500).

Operating Surplus

The operating surplus is stated after charging amounts under operating leases which are:

	2007/08	2006/07
Deficit stated after charging/(crediting)	£000	£000
Others	26	58
Plant	501	420
Total	527	478

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4. (b) Total operating costs

	2007/08	2006/07
<u>Note 4b - Total Operating Charges</u>	£000	£000
Lighthouses	2,049	2,092
Buoys and beacons	195	33
Tenders	4,427	3,612
Bases	658	711
Workshop	1,382	1,418
Head Office	4,974	4,987
Redundancy	61	0
Running Costs	13,746	12,853
Depreciation and amortisation	3,673	4,122
Other Project costs	0	14
Penalty for early termination of NLV Pharos lease	0	190
Pension Costs	1,908	1,537
Provisions for liabilities & charges	783	0
Total	20,110	18,716

5. Interest receivable

Note 5 - Interest Receivable

	2007/08 £000	2006/07 £000
Bank Deposits	23	18
Other Short term Deposits	0	1
Total	23	19

6. Interest payable

Note 6 - Interest Payable

	2007/08 £000	2006/07 £000
On lease of NLV POLE STAR	378	391
On lease of NLV PHAROS	870	0
Total	1,248	391

7. Net expenditure on behalf of all General Lighthouse Authorities

Note 7 - Net Expenditure on behalf of all GLAs

	2007/08 £000	2006/07 £000
Actuarial Services	25	29
Legal Fees for the collection of Light Dues	10	8
Total	35	37

8. Intangible Fixed Assets

	2007/08 £000 Software	2006/07 £000 Software
Costs		
Balance at 1 April 2007	427	432
Additions	40	46
Disposals	0	-101
Transfers	5	50
Balance at 31 March 2008	472	427
Amortisation		
Balance at 1 April 2007	201	212
Provided	95	90
Disposals	0	-101
Transfers	0	0
Balance at 31 March 2008	296	201
Net book Value		
Net Book Value at 1 April 2007	226	220
Net Book Value at 31 March 2008	176	226

9. Tangible Fixed Assets

	Land & Buildings	Ancillary Craft	Tenders	Buoys	Plant & Equipment	Computer Equipment	Assets in course of Constn.	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Costs								
Balance at 1 April 2007	27,894	9	27,568	3,224	21,342	399	3,012	83,448
Additions	174	0	125	232	426	25	1,141	2,123
Revaluations	0	0	0	0	0	0	0	0
Disposals	-308	0	-96	-5	-749	-34	0	-1,192
Reclassifications	0	0	0	0	0	0	0	0
Transfers	259	0	0	80	696	88	-1,128	-5
Balance at 31 March 2008	28,019	9	27,597	3,531	21,715	478	3,025	84,374
Depreciation								
Balance at 1 April 2007	10,735	4	2,397	1,829	11,608	262	0	26,835
Adjustments	0	0	0	0	0	0	0	0
Provided during the year	998	1	1,161	164	1,173	81	0	3,578
Disposals	-139	0	-96	-1	-634	-34	0	-904
Reclassifications	-7	0	0	0	0	0	0	-7
Balance at 31 March 2008	11,587	5	3,462	1,992	12,147	309	0	29,502
Net Book Value								
Net Book Value at 1 April 2007	17,159	5	25,171	1,395	9,734	137	3,012	56,613
Net Book Value at 31 March 2008	16,432	4	24,135	1,539	9,568	169	3,025	54,872

Assets in course of construction (£3,025,000) represents the cost of partly complete Capital Works Projects as part of the approved Capital Works Programme.

	Tenders & Craft
	£000
Leased Assets included above	
Net Book Value	23,000

The net book value of land and buildings is entirely in respect of freehold assets.

The Commissioners also own antiques that have been valued at £603,000 at 14 December 2003. Further information is given in Note 26 - Third Party Assets.

10. Investment Assets

	2007/08	2006/07
	£000	£000
Holiday Cottages		
As at 1 April 2007	970	1,095
Additions	0	186
Depreciation	-7	-6
Revaluations	102	0
Write Downs	0	-305
As at 31 March 2008	1,065	970

Holiday cottages are shown at open market valuation (see note 1 (n)).

11. Stock

Note 11 - Stock

	31 March 2008	31 March 2007
	£000	£000
Mooring Chain	79	59
Base Stores	108	145
Workshop Stores	277	288
Fuel Oil	103	26
Total	567	518

12. Debtors

Note 12 - Debtors

	31 March 2008	31 March 2007
	£000	£000
Trade Debtors	10	81
Other Debtors	0	0
Prepayments and accrued income	339	579
VAT Recoverable	124	94
Total	473	754

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

Central Government	130	106
Local Authorities	0	2
NHS Trusts	0	0
Public Corporations	1	3
Total	131	111

13. Cash at bank and in hand

	31 March 2008 £000	31 March 2007 £000
Balance at 1 April 2007	1,025	321
Net cash (outflow)/inflow in year	-755	704
Balance at 31 March 2008	270	1,025
The following balances are held at 31 March 2008		
Commercial banks	254	1,006
Cash in hand	16	19
	270	1,025

14. Creditors: amounts falling due within one year

	31 March 2008 £000	31 March 2007 £000
<u>Note 14 - Creditors falling due within one year</u>		
Trade Creditors	744	722
Taxes and Social Security Costs	195	185
Accruals	607	238
Other creditors	16	49
Obligations under Finance Leases (Note 19)	1,075	1,484
Total	2,637	2,678

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

	31 March 2008 £000	31 March 2007 £000
Central Government	210	204
Local Authorities	1	0
NHS Trusts	0	0
Public Corporations	1	69
TOTAL	212	273

15. Creditors: amounts falling due after more than one year

Note 15 - Creditors falling due after more than one year

	31 March 2008 £000	31 March 2007 £000
Obligations under Finance Leases	22,398	23,473

There are no amounts in the above analysis that fall within the Whole of Government Accounting boundary.

16. Provisions

	Restructuring Costs	Annual Compensation Payments	Additional Contributions to the Merchant Navy Officers Pension Fund	Total
	£000	£000	£000	£000
	(i)	(ii)	(iii)	
Provisions at 1 April 2007	0	60	101	161
Increase in provision	201	171	600	972
Provisions utilised	0	-88	-101	-189
Provisions not utilised and written back	0	0	0	0
Provisions at 31 March 2008	201	143	600	944

The Board has provided for

- (i) Restructuring Costs - the estimated redundancy and compensation costs as a result of restructuring the organisation
- (ii) Annual Compensation Payments - the actuarially calculated estimate for the future liability for ACP's that are compensation payments until Age 60 and receipt of normal pension benefits.
- (iii) Additional Contributions to the Merchant Navy Officers' Pension Fund - provision for actuarially calculated estimate of liability due under the Occupational Pension Schemes (Employer Debt) Amendment and Pension Protection Fund (Multi Employer and Entry Rules) (Amendment) Regulations 2007 ("Section 75 Debt").

17. Pensions 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 £7,000 (£6,000 - 2006/07) 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 Balance Sheet. 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 FRS17 purposes. The last valuation was completed in August 2005, valued as at 31 March 2005. The accumulated liability for the Northern Lighthouse Board in respect of all current employees was in the order of £20,217,000. The estimated liability for pensions in payment and deferred pensions of former employees of the Northern Lighthouse Board was £41,624,000.

The actuary used the Project Unit Credit Method and a 'best estimate' approach of future experience ie one that includes no margin for caution. The valuation assumed an investment return of 7.5% (pre-retirement) & 5.0% (post retirement), salary growth of 5.0% for three years and 4.75% thereafter, price inflation 2.75% and the rate of increase for pensions in payment and deferred pensioners 2.75%. It also applied standard actuarial tables for mortality rates.

The actuary's updated estimate of the liability of ACP's at 31 March 2008 is £ 143,000.

The following information has been provided in accordance with Financial Reporting Standard 17 - Retirement Benefits (FRS17).

	31 March 2008	31 March 2007
	£000	£000
Active Members	25,169	29,861
Deferred Pensioners	6,557	7,159
Pensioners	40,294	41,227
Total Liability at Projected Unit Method	72,020	78,247
Real Discount Rate	2.5%	1.8%
Inflation Rate	3.7%	3.2%
Discount Rate	6.2%	5.0%
Salary increase assumption	4.7%	4.2%
Rate of increase for pensions in payment	3.7%	3.2%
Rate of increase for pensions in deferment	3.7%	3.2%

	£000	£000	£000
Scheme Liability at 1 April 2007			78,247
Current service cost		1,702	
Past service costs		0	
Interest on pension scheme liability		3,877	
			5,579
Benefits payable			
Pensions or annuities to retired employees and dependents	-2,873		
Commutations and lump sum benefits:			
On retirement	-157		
On early retirement	-109		
On death	-4		
Injury benefits	0		
		-3,143	
Pension payments to and on account of leavers			
Refunds to members leaving service	-5		
Group transfers to other schemes	0		
Individual transfers to other schemes	-449		
		-454	
			-3,597
Income received in respect of enhancements			
Employees			
Purchase of added years	61		
WPS Contributions	121		
Employers			
Bringing forward the payment of accrued lump sums	0		
Enhancement to pensions on departure	0		
Enhancement to pensions on retirement	0		
		182	
Pension transfers in			
Group transfers in from other schemes	0		
Individual transfers in from other schemes	210		
		210	
			392
Actuarial Gains and Losses			
Experience arising on the scheme liabilities	-280		
Changes in assumptions underlying the present value of scheme liabilities	-8,391		
		-8,671	
Club transfers in		166	
Club transfers out		-96	
			-8,601
Scheme liability at 31 March 2008			72,020

	£000
Opening Balance	78,247
Closing Balance	72,020
Decrease in Pension Reserve	-6,227
Operating Cost	1,702
Financing Costs	3,877
Pension Payments	-3,205
Statement of Recognised Gains and Losses	-8,601
Total	-6,227

	31 March 2008	31 March 2007	31 March 2006	31 March 2005
	£000	£000	£000	£000
Experience Gains and Losses on Scheme Liability amount	280	-180	-173	-788
	0%	0%	0%	-1%
Total amount recognised in the Statement of Total Recognised Gains and Losses	-8,671	9,542	8,405	782
	-12%	12%	13%	1%

The Department for Transport has reported the contingent liability for the General Lighthouse Authorities' pensions in their Departmental Resource Accounts for 2007/2008 and a liability of £348,000,000 (the estimated liability calculated at 31 March 2007) 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. Aon Consulting Limited have been engaged to provide actuarial support and have completed three full valuations.

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.

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Merchant Navy Officers' Pension Fund

The Board is a Participating Employer of the Merchant Navy Officers' Pension Fund (MNOF) which is a defined benefit scheme providing benefits based on final pensionable salary. The MNOF 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 MNOF are given the option of continuing MNOF 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% of pensionable salaries) are charged to the Income and Expenditure Account when they are paid.

For 2007/2008 employers' contributions of £112,000 were payable to the MNOF (2006/2007 - £14,000). The contributions in 2007/08 included payment of £101,000 in respect of additional contributions to fund the deficit. The employer contribution rate is reviewed each year. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

During 2007/2008 2 Officers were members of MNOF.

The rules of the MNOF 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 MNOF 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 MNOF 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 £600,000 for the liability arising under Section 75 of the Pensions Act 1995 when the last 'Active' member ceases employment with the Board.

18. Funding and reserves

(a) Accounting for advances from the General Lighthouse Fund

The Board receives advances from the Department for Transport to finance its Additions to Fixed Assets and Revenue expenditure for the Financial Year. Advances are shown as income and the surplus or deficit as per the Income and Expenditure Account is carried to the Accumulated Reserve (see (b) below).

(b) Accumulated reserve (formerly General Fund)

The former General Fund was established on 1 April 1986 with an opening balance representing the Cash balance of the Board's Account with the then Department of Transport at 31 March 1986.

The General Fund has been renamed "Accumulated Reserve", and the balance on the former Capital Fund has been transferred to the Accumulated Reserve.

	2007/2008	2006/2007
	£000	£000
Accumulated Reserve		
Opening Balance	-45,428	-38,364
-Deficit/Surplus for the Year	-4,881	2,478
Actuarial Gain/Loss	8,671	-9,542
Closing Balance	-41,638	-45,428

The balance on the Accumulated Reserve is analysed as follows:

	2007/2008	2006/2007
	£000	£000
Accumulated Reserve excluding pension liability	113,658	123,675
Pension Liability	-72,020	-78,247
Accumulated Reserve	-41,638	-45,428

(c) **Revaluation Reserve**

The revaluation reserve relates entirely to the revaluation of investment properties

	31 March 2008	31 March 2007
	£000	£000
Opening Balance	785	1,090
Add effect of valuations	102	-305
Closing Balance	887	785

(d) **Government Grant Reserve**

	31 March 2008	31 March 2007
	£000	£000
Opening Government Grant Reserve	190	207
Add Increase in reserve	0	0
Less charges to reserve	-15	-17
Closing Government Grant Reserve	175	190

19. Obligations under finance leases

	31 March 2008	31 March 2007
	£000	£000
Amounts payable within:		
one year or less	1,075	1,484
in more than one but not more than two years	1,134	1,075
in more than two years but not more than five years	3,784	3,589
in more than five years	17,480	18,809
Total	23,473	24,957

All these obligations are for the finance leases for NLV Pharos and NLV Pole Star. The main details of these leases are as follows:

NLV Pharos

Length of lease	15 years
Year commenced	2007
Outstanding lease period	14 years
Frequency of payments	½ yearly in advance
Interest rate charged	5.44%

NLV Pole Star

Length of lease	25 years
Year commenced	2000
Outstanding lease period	18 years
Frequency of payments	½ yearly in advance
Interest rate charged	5.14%

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

20. Obligations under operating leases

	31 March 2008 £000	31 March 2007 £000
Operating leases which expire within one year		
Land & Buildings	12	5
Other	49	14
Total	61	19
Operating leases which expire within two to five years		
Land & Buildings	20	12
Other	584	546
Total	604	558
Operating Leases which expire after five years		
Land & Buildings	1	8
Other	0	0
Total	1	8

The obligation of £ 584,000 for operating leases expiring within two and five years includes the operating lease for a helicopter (£511,000).

21. Capital commitments

	31 March 2008 £000	31 March 2007 £000
Contracted (but not provided for in Accounts)	1,065	279

22. Post-retirement benefits

In common with many employers, the Board has paid for career counselling and advice for staff made redundant under restructuring. This advice is provided prior to retirement.

23. Contingent liabilities

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 2005/2006 and there will be no Supplementary Calls for these years. The Club has advised the Board that it does not anticipate Supplementary Calls for the years 2006/2007 and 2007/2008. As a result, the Board has made no provision in the Accounts.

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.

Merchant Navy Officers Pension Fund

As a Participating Employer in the Merchant Navy Officers Pension Fund (see page 76) the Board may be required to make a further contribution to fund the deficit from the valuation as at 31 March 2006. This additional payment would be a share of the deficit that remains after the first call for payments from Participating Employers in September 2007. The Board cannot make a reliable estimate of the amount and is therefore not able to make a provision in these Accounts.

24. Inter-GLA ship transactions

The Board provided the services of NLV POLE STAR for 135 days 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 NIL (2006/2007 - £107,000) and notional income of £ 948,000 (2006/2007 - £14,000).

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. The Board has received advances of £ 19,970,000 (2006/2007 £ 24,622,000) from the General Lighthouse Fund and incurred expenditure of £ 35,000 (2006/2007 £ 37,000) on behalf of all three Authorities.

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 former Chief Executive and Director of Engineering are SLM Board Members. To date the only transactions between the Museum and the Board have been the gifting or loan of artefacts. However, it is hoped in the future to explore synergies between the Museum and the Board's policy for extended public access to lighthouses and general public relations activities.

26. Third party assets

The Commissioners operate two Charitable Trusts. Individual Commissioners and Directors are appointed to act as Trustees but neither the Commissioners of Northern Lighthouses (as a corporate body) nor the General Lighthouse Fund has a direct beneficial interest. The Trusts were established from donations and are used to provide support to former lightkeepers and their dependants and for assisting young people starting careers as Merchant Navy Officer Cadets. At 31 March 2008 the cash and investment balances were £ 59,000. In addition there are 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. They were last valued for insurance purposes on 14 December 2003 at £603,000.

27. Financial instruments

Financial Reporting Standard 13 *Derivatives and other Financial Instruments* (FRS 13) 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 13, debtors and creditors which mature or become payable within 12 months from the Balance Sheet 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.

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 2008.

	Book Value £000	Fair Value £000
Primary Financial Instruments		
Financial Assets		
Cash and Bank at Hand	270	270
Bank Guarantees	225	225
Financial Liabilities		
Finance Lease Obligations	23,473	23,897

28. Losses

Obsolete stock amounting to £9,000 was written off during the year.

29. Further Information

(a) Number of fixed assets

	31 March 2008	31 March 2007
Lighthouses (including 1 Station providing radio/electric nav aids only)	213	216
Buoys	204	215
Unlit beacons	37	38
Buoyant beacon	1	1
Tenders	2	2

(b) Number of fixed assets deployed

	31 March 2008	31 March 2007
Lighthouses (including 1 Station providing radio/electric nav aids only)	209	216
Buoys	163	156
Unlit beacons	37	38
Buoyant beacon	1	1
Tenders	2	2

(c) **Responsibility for Aids to Navigation**

Aids to navigation for which the Board has responsibility as a General Lighthouse Authority

	2007 Number	Remotely Monitored	Analysed by Category		
			Category 1	Category 2	Category 3
LIGHTS					
Lights - over 15 nautical miles range	80	77	80	-	-
Lights - under 15 nautical miles range	136	85	74	62	-
Total Lights	216	162	154	62	-
BUOYS					
Buoys - lit	156	1	44	85	27
Buoyant - beacon	1	-	1	-	-
Total Buoys	157	1	45	85	27
Beacons	38	-	-	-	-
DGPS stations	4	4	4	-	-
RACON stations*	26	-	26	-	-
Fog Signals	-	-	-	-	-
AIS Units					
Lights**	6	-			
Buoys	1	-			
Notes					
* Number of stations with more than one RACON	3				
** Number of AIS stations with base units and controllers	3				
CONTRACT					
Lights	-				
Buoys	36				
Fog Signals	-				
RACON stations	-				

LOCAL AUTHORITY

Light Stations	1,027
Buoy Stations	661
Offshore Installations	115
TOTAL	1,803

Five Year Summary

<u>Five Year Summary</u>		2008	2007	2006	2005	2004
		£000	£000	£000	£000	£000
From 2003/2004 the Accounts fully comply with the requirements of FRS17.	Advances from the General Lighthouse Fund	19,970	24,622	20,720	20,465	19,465
	Operating Income	713	698	257	318	310
		20,683	25,320	20,977	20,783	19,775
	Expenditure					
	Staff costs	7,274	7,044	6,937	7,657	7,073
	Pension costs	2,491	1,537	1,042	1,257	1,379
	Amortisation	95	90	103-	-	-
	Depreciation	3,578	4,032	5,595	3,972	3,237
	Other operating charges	6,672	6,053	5,855	6,397	5,869
	TOTAL	20,110	18,716	19,532	19,283	17,558
	Operating surplus	573	6,604	1,445	1,500	2,217
	Interest on pension scheme liability	3,877	-3,994	-3,566	-3,378	-2,997
	Gain/(Loss) on sale of fixed assets	317	277	-314	10	-491
	Interest receivable	-23	19	18	31	27
	Interest payable	1,248	-391	-845	-888	-945
		-4,846	2,515	-3,262	-2,725	-2,189
	Net expenditure on behalf of all GLAs	35	37	81	40	46
	Surplus/(deficit) for the financial year	-4,881	2,478	-3,343	-2,765	-2,235
	Tangible fixed assets	54,872	56,613	44,085	46,830	47,259
	Net current assets/(liabilities)	-1,327	-381	-8,253	-1,163	-1,190
Long-term creditors, capital and reserves	62,974	67,927	44,485	32,801	37,189	
Pension liability	72,020	78,247	66,250	55,455	52,723	
Purchase of tangible fixed assets	2,123	19,900	4,250	3,624	3,055	
Average number of employees (including part-time)	261	272	285	295	313	
	76	78	79	89	106	

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

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