

# Commissioners of Northern Lighthouses



Report and Accounts for the year to 31 March 2009

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.

At the time of approval of these Accounts the Report and Accounts for the General Lighthouse Fund for the year ended 31st March 2009 have not been laid before Parliament.

#### Front Cover - Lismore Lighthouse

Lismore is situated on Eilean Musdile in the Firth of Lorne at the entrance to Loch Linnhe. This is separated from Lismore island by a Sound ¼ miles broad. On 13 January 1830 the Commissioners purchased, from Charles Campbell Esq of Combie, the small island of Mansedale, lying off the south west point of Lismore, for the sum of £500. The Island extends to approximately ten acres.

James Smith of Inverness was the contractor responsible for building Lismore at the price of £4,260. The light was first exhibited in October 1833 and was fixed white. The report at the time stated the light will doubtless be of great service to numerous vessels which frequent the sounds of Islay, Luing and Mull. It also opened up the firth of Lorne and Loch Linnhe for the western entrance to the Caledonian Canal.

Mr Robert Selkirk, a lineal descendant of Alexander Selkirk, was the first Principal Lightkeeper at Lismore and had been in the service since 1808. Lismore was a Rock Station relieved fortnightly so that the men (4 in all) had 6 weeks on the rock followed by two weeks ashore with their families. The provisions and other light stores were brought by a boatman permanently attached to the Station who also did reliefs.

In 1910 most of the Boards lights were changed to dioptric but Lismore and Fidra were left as the only remaining purely catoptric lights in the service.

The war years provided extra work for the lightkeepers. In 1940 two lightkeepers at Lismore, under most difficult conditions, rescued two airmen clinging to a piece of wreckage in the sea.

June 1965 saw the biggest change at Lismore when it was converted to Automatic operation at an estimated cost of £10,000. Upwards of eleven tons of building material had to be transported from Oban by the MV FINGAL. The lightkeepers were then withdrawn.

The light is now looked after by staff at our base in Oban.

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

## The Commissioners as at 29 September 2009

Sir Andrew Cubie CBE (Chairman)

Sheriff Principal R Alastair Dunlop QC (Vice-Chairman)

The Rt Hon Elish Angiolini QC WS  
Frank Mulholland QC

Sheriff Principal Edward F Bowen TD 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  
Robert Quayle  
Alistair Whyte  
John Ross CBE  
Alastair Mackenzie

### The Chief Executive

Roger Lockwood CB

### Secretary to the Board

Jill Bennett

## Office and advisers

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### Office

84 George Street  
Edinburgh  
EH2 3DA

### Bankers

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

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### Auditors

Comptroller and Auditor General  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

### Solicitors

Bell and Scott LLP  
16 Hill Street  
Edinburgh EH2 3LD

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### Insurance Brokers

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

Bluefin Insurance Services Ltd  
1 Pinkhill  
Edinburgh  
EH12 7BA

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### Actuaries

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

# Chairman's introduction

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

I am pleased to provide this introduction to the review of the financial year to 31st March 2009. The year held challenges for the Northern Lighthouse Board, but I believe we have collectively risen to face them with strength. We were able so to do in large measure because of the wisdom and experience of my predecessor, as Chairman, Captain George Sutherland. We are in his debt for that and he has our thanks as he completes his appointment as a Commissioner.

The Board has inescapable statutory obligations to provide a reliable, efficient and cost effective aids to navigation service for the benefit and safety of all mariners around the coasts of Scotland and the Isle of Man. We cannot pick and choose in discharging such responsibilities. We can, and do, however, address how such provision can be made more reliable, more efficient and even more cost effective. We must be able to signal to those who pay light dues, our customers, and other users of our aids to navigation that both at sea and ashore in our work we come second to none in our approach and outcomes. I believe during the year under review we have so demonstrated.

I shall leave Roger Lockwood, our Chief Executive, to describe the detail of the year. The Board has again gained from his powerful leadership of a committed and talented team. Surpassing the demanding operational international standards of efficiency in sustaining our lights, buoys and electronic aids in some of the most hostile waters of the world is demanding on crews, technicians and base staff.

Likewise in our headquarters in Edinburgh we have a dedicated and resourceful group of people providing essential back up to our mission and purpose. Increasingly close collaboration with the other two General Lighthouse Authorities is part of normal business for them.

The Board's composition remained largely unaltered through the year, other than, in addition to the departure of George Sutherland, for the retirement of Peter Mackay CB and Captain Ken Macleod. Peter served the Board both as Chairman and Commissioner with enthusiasm and wisdom. I am pleased he has agreed to become a Trustee of the Northern Lighthouse Board Heritage Trust under the Chairmanship of Lord Boyd of Duncansby. Ken, with a lifetime of marine experience, in chairing our Ship Committee, played the most significant part in our confidence in the design, ordering and commissioning of Pharos.

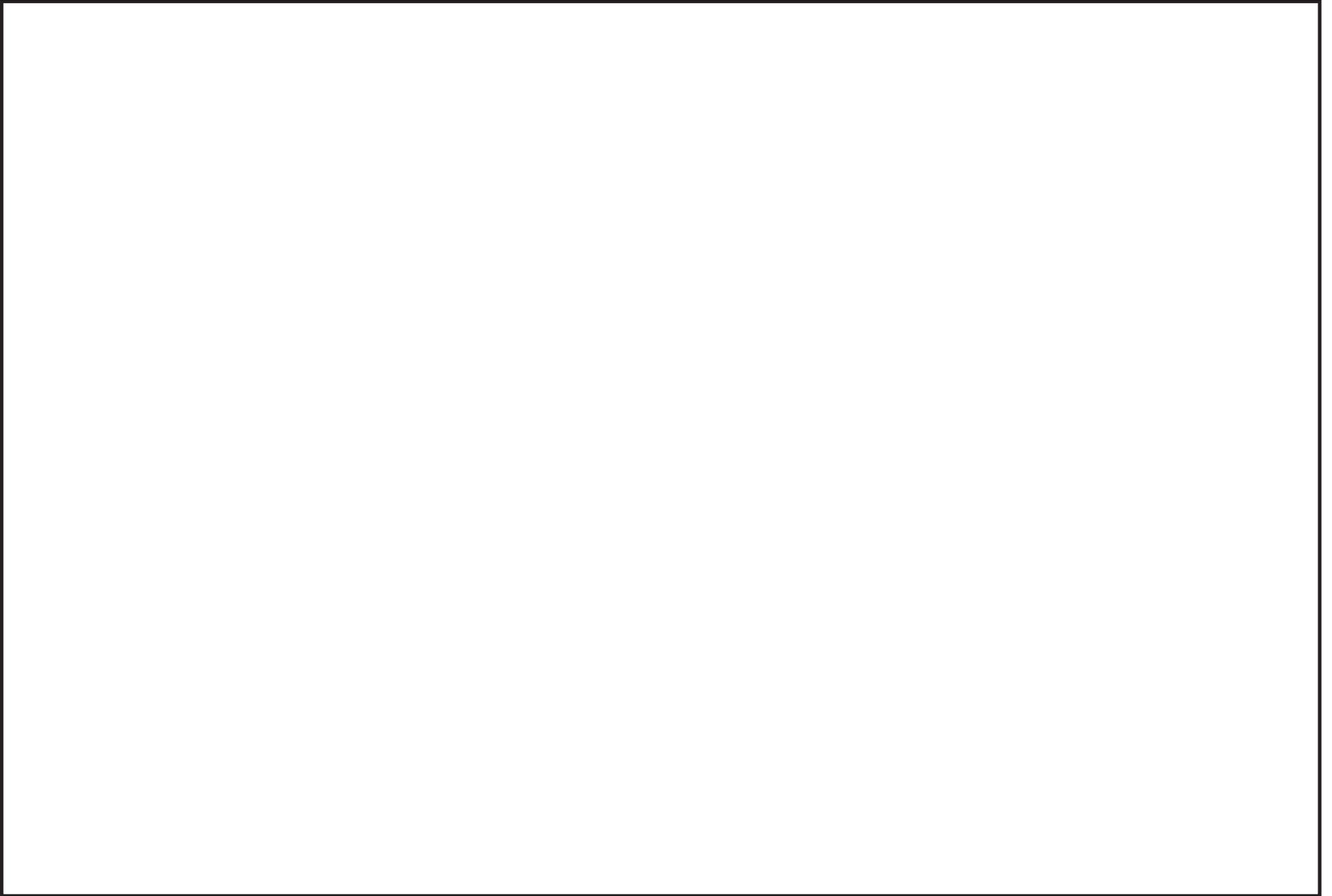
Some have commented during the year as to the structure and composition of the Board. Whilst it is patently obvious that, were the Board to be established in 2009, our present governance model would not be an obvious choice, we have a diverse range of skills, experience and common sense to draw upon for our current day responsibilities. We have strong marine representation balanced by senior corporate, audit and legal experience. Our approach in the use of key performance indicators and the assessment of Board performance draws on the best of both public and private good and relevant practice.

In conclusion, the objectives of our corporate and business plans for the financial year, approved by the Department of Transport and acknowledged by the Lights Advisory Committee, were fully met. We intend in the coming year again to meet in full our agreed targets and whenever possible to exceed them. These are not easy years for commerce, not least the shipping industry. Our contribution in these times can only be to meet our exacting statutory duties and collaboratively to provide our aids to navigation in the most cost effective manner. We will do so.



A handwritten signature in dark ink, appearing to read 'Andrew Cubie'. The signature is fluid and cursive, written over a horizontal line.

Sir Andrew Cubie CBE  
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 latter part of Financial Year 2008/09 has been overshadowed by the atmosphere arising from the Consultation into a requirement to increase the level of Light Dues. The need for an increase came about due to a combination of factors including reduced Light Dues receipts, reduced investment income and a collapse in the share values of the General Lighthouse Fund. Whereas the shipping and port industries, experiencing increasingly difficult financial constraints, raised understandable objections to any increases, there was little recognition in their arguments of the savings made by all three General Lighthouse Authorities in recent years - for instance, Light Dues had been reduced in real terms by some 50% over the last decade.

To further this progress, the Northern Lighthouse Board declared that, for the 2008/09 Corporate Plan, we would set ourselves a "stretch target" of £1.5 million and vouched that we would end the year at least that much below our budget. We have exceeded that stretch target and thereby contributed to the savings made since the Consultation period began in order to reduce the proposed increase in Light Dues. For Financial Year 2009/10, we declared a larger stretch target and took it a step further by deducting it from our original bid for the year. Using this as both a target and a tool, we are determined to continue to drive costs down and to seek further efficiencies.

Notwithstanding the financial situation, the Northern Lighthouse Board has continued to meet its programme and to satisfy the very demanding international requirements for the provision of Aids to Navigation at sea in our waters. Both our ships continue to perform very well and, although Pole Star had to undertake some unprogrammed Engine Room work during the year, their usage rates have been very high. The General Lighthouse Authorities Fleet Review has recommended the retention of both vessels, although that Report has yet to be approved.

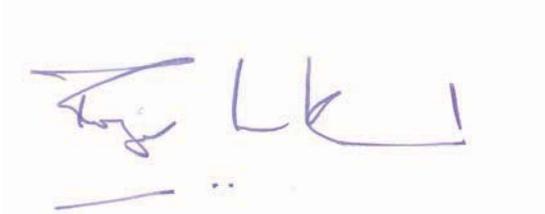
Apart from the lighting of some unlit beacons and the reduction in range in some lighthouses (awaiting the next programmed re-engineering) the recommendations of the 2005 Aids to Navigation Review have all been effected; this has resulted, inter alia, in the discontinuation of five lighthouses and it is intended that the forthcoming 2010 Review will include more. But any significant reductions rely on the introduction of e-Loran as a complement to GPS and, although there has been an encouraging European drive in the direction of e-Loran, the situation in the USA is uncertain. The tri-GLA Research and Radionavigation Directorate has been highly effective in advancing the case for this essential terrestrial navigation system.

A contract was placed in October 2008 with the architectural consultants Wellwood Leslie to advance the intention to refurbish the Headquarters at 84, George Street, Edinburgh. The contract was in three phases: an initial options study; full design work; and project management of the refurbishment itself. Both the later phases would be subject to availability of finance and Ministerial approval. The architects have now delivered their options study report and this is being considered by the Managing Board before any further steps are taken.

Shore staff moved into their new grades and onto new pay scales in August 2008 following the introduction of a revised Grading and Performance Management structure. Introduction is being phased and will not be complete until August 2010. All three shore staff Trades Unions voted in favour of the restructuring. After two negative ballots by the Marine staff, their pay award (for April 2008) was imposed at the end of March 2009. There has been no reaction to the imposition.



At the end of the Financial Year, the Northern Lighthouse Board is in good shape, achieving its objectives and meeting its international requirements. In the coming year, it is determined to prove that not only does it provide a reliable Aids to Navigation service, but that that service is demonstrably efficient and cost-effective too.

A handwritten signature in blue ink, appearing to read 'Roger Lockwood', with a horizontal line underneath.

Roger Lockwood  
Chief Executive

# The Commissioners



**Sir Andrew Cubie CBE (B, M, N, R)**

Elected by the Commissioners. Chairman since 1 April 2009. Commissioner since 14 January 2003 and currently co-opted until 13 January 2012. 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, RNLI Scotland, The Centre for Healthy Working Lives, British Council Scotland; Trustee VSO and Chairman, Committee of University Chairmen.



**R Alastair Dunlop QC (B, M, Nav, R)**

Sheriff Principal of Tayside, Central and Fife. Commissioner since 28 April 2000. Vice-chairman since 1 April 2009. 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.



**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,A)**

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.



**Bruce Alexander Kerr QC (B, M, E, 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 1967-1979; Sheriff of North Strathclyde at Paisley 1979-1981; Sheriff of Glasgow and Strathkelvin 1981-2005; Member of Parole Board for Scotland 1999-2003; President Sheriffs' Association 2003-2005; Temporary Judge in the Court of Session since 2008.



**Alistair Mackenzie (B, M, Nav, S)**

**Elected by the Commissioners from 1st August 2009 and co-opted until 31st July 2012.**

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



**Sheriff Principal James A 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 Sherifdom of Glasgow and Strathkelvin, 2005.



**Robert Quayle (B, M, N, 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**

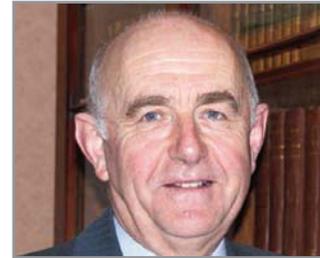
Chairman, Isle of Man Steam Packet Company; Director of IPIR Ltd, Principal Subsidiary of UK P&I Club, Director, Total (Isle of Man); English Solicitor, 1974; Clerk of Tynwald and Secretary of the House of Keys, 1976-1987; Partner then consultant with Travers Smith Brathwaite, 1987 - 1999.



**Sir Stephen S T Young Bt QC (B, A, R)**

**Sheriff Principal of Grampian, Highland and Islands. Commissioner since 10 September 2001.**

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



**John Ross CBE FRAGS (B, A, E, R)**

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



**Captain H M Close (B, A, 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.



**Alistair Whyte (B, M, Nav, S)**

**Elected by the Commissioners. Commissioner since 28 February 2004 and currently co-opted until 27 February 2013.**

Master Mariner; formerly Deputy Chairman, Red Funnel Group (Holdings) Ltd; Fellow of the Institute of Chartered Shipbrokers; Fellow of the Chartered Institute of Transport.



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**Councillor The Rev Dr George Grubb (B)**

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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



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**Councillor Peter Stephen (B)**

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Lord Provost of Aberdeen. Commissioner since 16 May 2007  
Lord-Lieutenant of Aberdeen City; Lord High Admiral of the Northern Seas; Vice Admiral of the Coast of Great Britain & Ireland; Trustee on the Board of the National Library of Scotland; President of Aberdeen Branch of the Royal National Lifeboat Institution; Honorary President of the Bridge of Don Sea Cadet Unit; Vice President - Shipwrecked Fishermen & Mariners' Royal Benevolent Society; Vice President of Highland Reserve Forces' & Cadets' Association Member of the Chartered Institute of Bankers in Scotland.



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**Councillor Sandy Park (B)**

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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



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**Councillor Robert Winter (B)**

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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.



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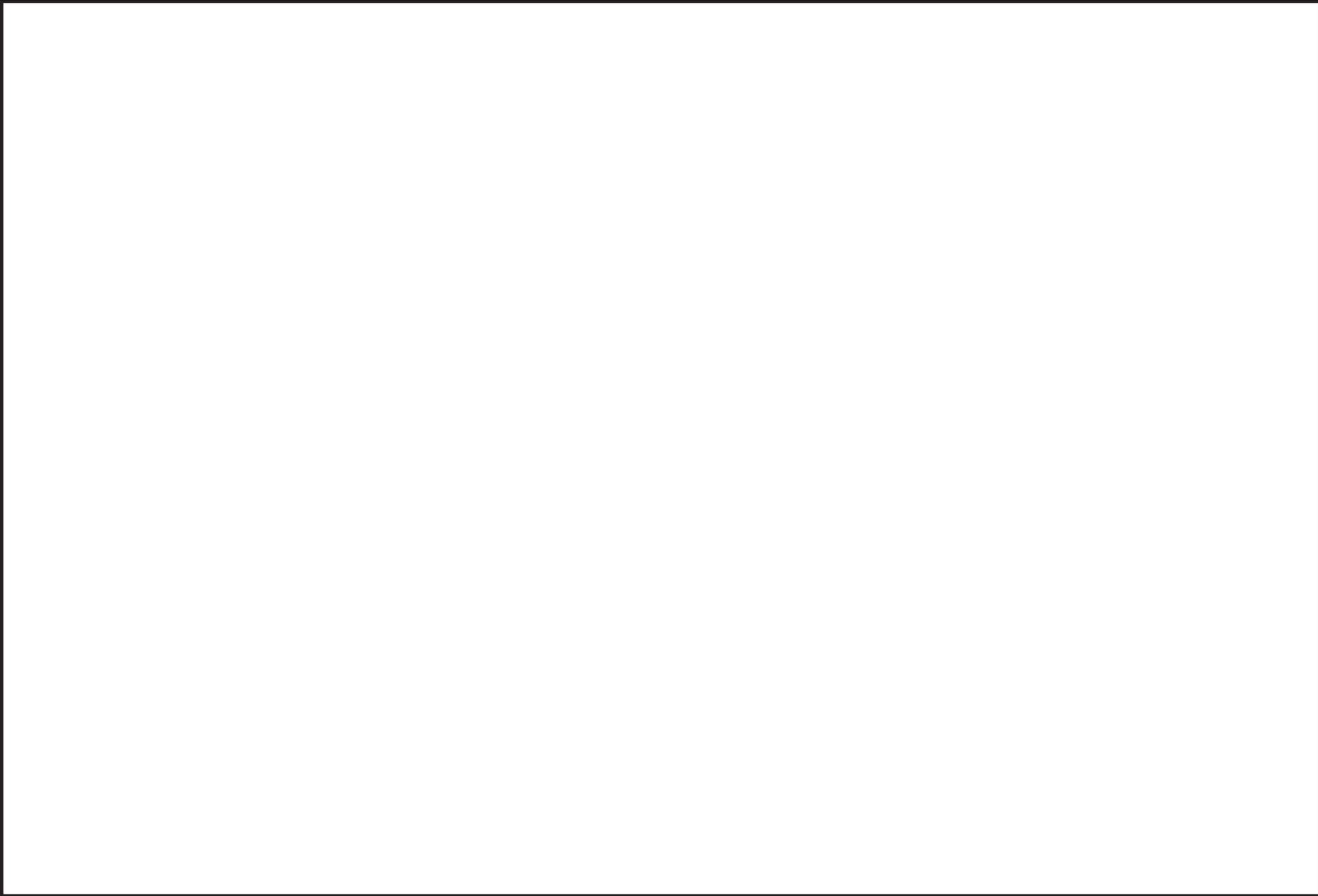
**Councillor William Petrie OBE JP DL (B)**

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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.

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

The Commissioners of Northern Lighthouses have pleasure in presenting their Report and Accounts for the year ended 31 March 2009. 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 **2008/2009** was as follows:-

### Law Officers for Scotland

The Rt Hon Elish Angiolini QC WS, The Lord Advocate

Commissioner since 5 December 2001

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 A 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 2013

Captain Mike Close

Commissioner since 1 July 2008 and co-opted until 30 June 2011

John Ross CBE

Commissioner since 1 October 2008 and co-opted until 30 September 2011

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

Sir Andrew Cubie CBE

Commissioner since 14 January 2003 and co-opted until 13 January 2012

**Lord Provosts**

Councillor Robert Winter, The Rt Hon Lord Provost of Glasgow

Commissioner since 17 May 2007

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

Commissioner since 17 May 2007

Councillor Peter Stephens, Lord Provost of Aberdeen

Commissioner since 16 May 2007

**Convener of Highland Council**

Councillor Sandy Park

Commissioner since 17 May 2007

**Convener of Argyll & Bute Council**

Councillor William Petrie OBE JP DL

Commissioner since 1 April 2001

as at 31 March 2009

average number of years service for Commissioners in post 5.3

**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 2008/2009

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Roger Lockwood CB

Chief Executive

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

Director of Engineering

Captain Phillip Day

Director of Marine Operations

Douglas Gorman ACMA MIIA FIIA

Director of Finance and Administration

## Corporate Governance

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### Organisation structure

The Commissioners form the Board of Commissioners that leads and controls the Northern Lighthouse Board. The Board of Commissioners meet on four occasions each year and has a formal schedule of matters reserved to it for decision. There are 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:

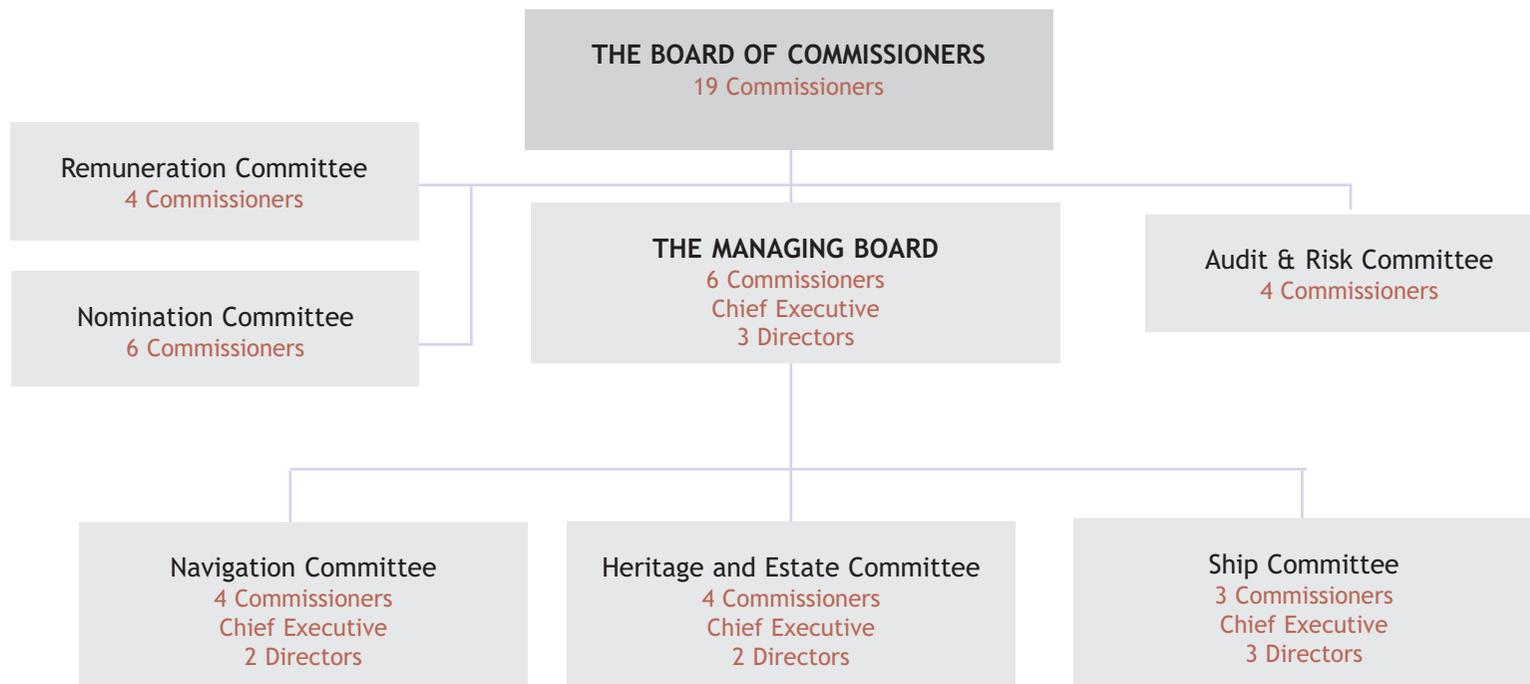
- attendance at Board of Commissioners' meetings by the Chief Executive and Directors;
- attendance at Board of Commissioners and Committee meetings by managers who can provide specialist and professional advice to Commissioners.

## 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 2008/2009 4

### Committee Members Attendance

#### Commissioners

Captain George Sutherland FNI (Chairman)	4/4
The Rt Hon Elish Angiolini QC WS	3/4
Frank Mulholland QC	3/4
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	2/4
Sheriff Principal James A Taylor	0/4
Sheriff Principal Brian Lockhart	4/4
Councillor Robert Winter	0/4
Councillor The Rev Dr George Grubb	0/4
Councillor William Petrie OBE JP DL	1/4
Councillor Peter Stephen	1/4
Councillor Sandy Park	0/4
Sir Andrew Cubie CBE	4/4
Captain Kenneth MacLeod	0/1
Robert Quayle	4/4
Peter Mackay CB	2/2
Alistair Whyte	4/4
Captain Mike Close	3/3
John Ross CBE FRAGs	2/2

## 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 2008/2009 6

### Committee Members Attendance

#### Commissioners

Captain George Sutherland FNI (Chairman)	6/6
Sir Andrew Cubie CBE	4/6
Sheriff Principal R Alastair Dunlop	6/6
Alistair Whyte	5/6
Sheriff Principal Bruce Kerr	5/6
Captain Kenneth MacLeod	1/2
Captain Mike Close	4/4

## Audit and Risk Committee

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

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

During the year the Committee reviewed the findings of internal audits carried out covering vehicle management, commercial activities, helicopter provision and data handling. 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 2008/2009.

Number of Meetings held in 2008/2009 4

**Committee Members Attendance**

Robert Quayle (Chairman)	4/4
Sheriff Principal Bruce Kerr QC	4/4
Sheriff Principal Sir Stephen Young Bt QC	4/4
Peter Mackay CB	2/2
John Ross CBE	2/2

**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 2008/2009 0

**Committee Members**

Alistair Whyte (Chairman)  
 Captain Mike Close  
 Captain George Sutherland FNI

**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 2008/2009.

Number of Meetings held in 2008/2009 4

**Committee Members Attendance**

Alistair Whyte (Chairman)	4/4
Captain George Sutherland FNI	4/4
Captain Kenneth MacLeod	1/1
Sheriff Principal R Alastair Dunlop QC	3/4
Captain Mike Close	2/3

## Nomination Committee

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

The Committee 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 2008/2009 2

### Committee Members Attendance

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

## Remuneration Committee

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

During the year the Committee completed the Directors' Salary Review that took effect from 1 August 2008.

The Committee reports directly to the Board of Commissioners.

Number of Meetings held in 2008/2009 2

### Committee Members Attendance

Captain George Sutherland FNI (Chairman)	2/2
Peter Mackay CB	1/1
Sir Andrew Cubie CBE	2/2
Sheriff Principal Sir Stephen Young Bt QC	2/2
John Ross CBE	0/1

## 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 3 occasions during 2008/09.

Number of Meetings held in 2008/2009 3

### Attendance at Meetings

Sir Andrew Cubie CBE (Chairman)	3/3
Robert Quayle	2/3
Sheriff Principal Brian Lockhart	2/3
Peter Mackay CB	1/1
John Ross CBE	2/2

## Management Commentary

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### 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

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### 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 Pineda 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.

The general economic and financial climate has had two significant effects on the General Lighthouse Fund:

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

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

The Department issued a consultation document on 23rd February 2009 inviting comments on the proposed increases. The consultation period ended on 18th May 2009. The shipping and ports sectors do not support the proposed increases at a time of a downturn in shipping and the effect on their own businesses. These points will have been made in formal representations to the Department. However, the GLAs have also responded to the consultation explaining the necessity of the first increases since 1993.

## Objectives

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### Strategic aim

The aim of the Northern Lighthouse Board is to deliver the 2009-2012 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 2009/2010 in particular as below.

- To reduce reliance on the General Lighthouse Fund by ensuring rigorous delivery of the Corporate Plan through 2009/2010, restricting Net Expenditure to the Stretch Target of £23,314,000 or less and without compromising the high levels of Aids to Navigation availability as required by international agreement.
- To implement, where agreed and appropriate, any outcomes from the GLA Fleet Review.
- To complete an options appraisal exercise for helicopter service, producing an output based specification to enable a tendering process to start no later than 30 November 2009.
- Together with the other GLAs and R&RAV, to prepare the successor to 2020 The Vision for publication in April 2010.
- To consider the recommendation of the George Street feasibility study and to reach a decision on the way ahead by March 2010.
- To complete Phase 3 of the AIS AtoN deployment programme by 31 March 2010.
- To complete the re-engineering of all four NLB DGPS sites by 31 March 2010.
- To plan, prepare and implement the Board's intentions to:
  - \* Migrate to NLB-wide software for document management (Phase 1 by September 2009)
  - \* Replace Management Information Systems (currently Concorde XAL)

- \* Replace GroupWise with MS Outlook as NLB's e-mail system by December 2009

## Key performance indicators

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### Aids to Navigation availability

#### Purpose

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

#### Definition, calculation and targets

The method of measurement and the recognised availability standards are set for each category by the International Association of 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**

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#### **Purpose**

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

### **Definition, calculation and targets**

Running Costs are defined as pay and overhead costs, including travel & subsistence and redundancy costs. The costs are measured as "Running Costs" ie the costs actually incurred and "Running Costs at Constant Prices" ie the costs after adjustment for the 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 in cash and constant prices" on page 43.

#### **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.

### **Current and future developments and performance**

#### **Updating 2020 The Vision**

The GLAs operate three levels of common documentation with regard to Aids to Navigation (AtoN) Requirements.

- Level 1 - Strategy
- Level 2 - Plans and Policies
- Level 3 - Navigation Review and Work Instructions

Through a 5 yearly rolling review the GLAs ensure all levels of the common documentation remain relevant, consistent and integrated for delivery of its strategy.

Since the publication of 2020 The Vision the global maritime risk to life, property and the marine environment has continued to increase. The International Maritime Organisation's (IMO) response is e-Navigation to enhance berth-to-berth navigation and related services, for safety and security at sea and protection of the marine environment.

In line with the five yearly review cycle and recognising the developments of e navigation concepts, the GLAs commenced a successor in FY 08/09 to 2020 the vision. "2025 and Beyond" will be the United Kingdom and Ireland's marine aids to navigation (AtoN) strategy once extensive external consultation has taken place. It is expected to be launched in May 2010

The GLAs' marine aids to navigation strategy is for a balanced mix of physical and radio AtoNs that will meet the UK's and Ireland's responsibilities as Contracting Governments to the IMO's SOLAS Convention. In so doing it will support the introduction of the IMO's e-Navigation initiative and will deliver a reliable, efficient and cost-effective AtoN service for the benefit and safety of all mariners.

To deliver this strategy the three GLAs will continue to co-operate with each other and consult with all users continuously to 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.

For the third time the three GLAs have commenced a total, simultaneous review of all their AtoN requirements which is planned to be published at the same time as the new strategy document in May 2010

The study will be carried out based solely on the minimum navigational requirements but will have cognisance of best available cost effective technology.

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.

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 was then decided 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.

An architect was appointed during the year to provide consultancy services for the refurbishment project. The project has 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. Phase 1 - the feasibility study - has been completed, but further work on this project has been delayed while the Department's "Assessment" of the GLAs is being undertaken.

## E Navigation

The GLAs 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.

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

The GLAs' own program of trials of eLoran at a BT Radio site near Rugby 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 is 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. 2008/09 brought revenue of £1,012,000.

The Draft Marine Navigation Bill, 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 ended on 25 July 2008. The House of Commons Transport Committee has scrutinised the draft Bill and provided a report before the Summer Recess on 22 July 2008. Included in this draft Bill are extended powers over pension provision for the GLAs and commercial work, changes to the GLAs area of jurisdiction and wreck powers and new enforcement powers against local lighthouse authorities. The Government did not include the draft Bill in its current legislative programme 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
- Marine (Scotland) Bill

## International Representation

Despite NLB's significant contribution to the work of the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA), in the form of committee involvement and chairmanship, the Board is not represented on the Council, other than by the presence on the Council of the Deputy Master of Trinity House. With the support of the IALA Secretary General, and both TH and CIL, a motion will be put to the next IALA Conference in 2010 to award Observer status to NLB's Chief Executive (and to others in similar positions where a state has more than one Lighthouse Authority). In the meantime, NLB's strong role in the development of AIS continues, and an international AIS conference and workshop was held in Edinburgh in August 2008.

NLB has worked closely with the Norwegian Kystverket in the development of marking schedules and equipment specification for the growing number of decommissioned offshore oil and gas structures in the North Sea. A joint NLB/Kystverket Paper on this subject has been accepted for presentation at the IALA Conference in 2010.

## 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

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### Ships

NLV Pharos, now in her third year of operation, continues to prove to be a valuable asset to the organisation.. The ship remains reliable and effective having undertaken a full programme of works utilising her capability to support Engineering capital and maintenance tasks, service buoyage, undertake statutory inspections and undertake some commercial work in the year.

NLV Pole Star, recommended to be retained by the recent Fleet review in her current state without significant modification, 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 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 support and test facility, as well as 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.

To support dispersed maintenance personnel two small facilities are staffed and maintained in Orkney and Shetland, along with two staff using Chanonry Lighthouse near Inverness as an operating base.

## **People**

People remain a vital resource to the NLB. The Board completed a full Pay and Grading Review for Shore Based Staff, the results of which ensure that the Board is compliant with Equal Pay Legislation and that our staff are rewarded fairly for the jobs they do. The restructuring is being rolled out over a three year period, concluding in August 2010.

## **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. The Chief Executive also chairs a Staff Council which meets four times a year.

Employees are informed of matters of concern to them; they are consulted frequently and regularly so that account may be taken of their interests. In February 1998 the Board undertook its first Staff Attitude Survey and the results from this, and the subsequent surveys, are used as a key part of the consultation process. In 2008/2009, as in previous years, the Chief Executive held general staff meetings to develop items for incorporation in the Board's strategic objectives and to ensure openness and accountability.

## **Human Resources Policies**

The Human 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. During this year new and revised policies have been implemented including absence, recruitment and selection, equality and diversity, family care and performance management.

## Health and Safety

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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

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

Research and Development is conducted for all three GLAs by the Research and Radionavigation Directorate (R&RNAV) based at Harwich. 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). Despite some uncertainty in the USA over funding, the tide seems to be strongly in favour of eLoran. The GLAs see this as a vitally important terrestrial complement to GNSS and which, in 2020 The Vision, is seen as a significant enabler in reducing the number of traditional Aids to Navigation.

## Environmental issues

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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

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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 £331M as at 31 March 2009 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**

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### **Department for Transport**

The General Lighthouse Fund is administered by the Department for Transport who sponsor the three General Lighthouse Authorities. The relationship between the Board and the Department for Transport is set out in a Framework Document (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. The NLB holds a Scottish Users' Consultation Group meeting in

November each year to exchange views and information with our Scottish and Manx customers.

## Financial position

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### Source of finance

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

In addition, the Board has sundry receipts in the form of buoy 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 £68M as at 31 March

2009 - see Note 17 Pension Liabilities. As noted in the Accounts the Department for Transport will seek to ensure that annual revenue into the General Lighthouse Fund will be sufficient to meet pension liabilities as they fall due. The liability is also covered by a letter of comfort from the Department for Transport. This letter of comfort is very valuable and could reasonably be considered to provide the security to the members of the Scheme that assets held separately to specifically meet pension benefits would give. In fact, it goes further than this as it effectively also underwrites the investment and life expectancy risks associated with funded pension schemes. However, this guarantee is only a backstop position and there is a clear expectation that the liability will be discharged from the General Lighthouse Fund.

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

1. Legal advice has confirmed that part of the General Lighthouse Fund, including any contributions paid by members, cannot be protected from general liabilities to provide pension benefits. At 31 March 2009 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 2009 are contained in the attached Accounts and Notes and show a deficit (including Depreciation) on Revenue Account transferred to the Accumulated Reserve.

	2008/2009	2007/2008
	£000	£000
Operating Deficit	-4,820	-4,881

For 2008/2009 the Board's performance against the Cash Limits set by the Department for Transport is summarised as follows:

	Cash Limits	Actual	Variance
	£000	Expenditure £000	£000
Running Costs	14,437	15,136	699
Expenditure on behalf of all GLAs	70	28	-42
Other Costs	5,499	5,153	-346
Capital Expenditure	5,779	2,972	-2,807
<b>TOTAL</b>	<b>25,785</b>	<b>23,289</b>	<b>-2,496</b>

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

	Expenditure on			Capital
	Running Costs	behalf of all GLAs	Other Costs	
	£000	£000	£000	£000
<b>Expenditure for measuring Cash Limit performance</b>	<b>15,136</b>	<b>28</b>	<b>5,153</b>	<b>2,972</b>
NLV Pharos lease payments			-1,677	
NLV Pole Star lease payments			-629	
FRS 17 adjustments			-1,243	
Running Costs (shown separately)			15,136	
Depreciation			3,705	
Provisions made and adjusted	-175		1,255	
<b>Disclosed in Annual Report &amp; Accounts</b>	<b>14,961</b>	<b>28</b>	<b>21,700</b>	<b>2,972</b>
	See Note 4b		See note 4b	
Analysed to:				2,806
	Tangible Fixed Assets Note 9			
				166
				Intangible Fixed Assets Note 8

## Expenditure on Tangible Fixed Assets

During the year to 31 March 2009 the Board’s expenditure on tangible fixed assets was :-

	2008/09	2007/08
	£000	£000
Assets in course of construction	1,298	1,141
Land and buildings	448	174
Buoys	27	232
Tenders and Ancillary Craft	232	125
Plant & Equipment, vehicles, etc.	765	426
Computer equipment	36	25
<b>Total</b>	<b>2,806</b>	<b>2,123</b>

The Accounts Direction provides that fixed assets shall be stated at historic cost less depreciation. During 2008/2009 the Board obtained independent valuations for the Headquarters building and the operating base at Oban. These valuations were completed by Graham and Sibbald, Chartered Surveyors.

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

	Market Value	Net Book Value	Difference
	£000	£000	£000
NLB Edinburgh	3,450	262	3,187
NLB Oban	890	3,064	-2,174

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
	£000	£000	£000
Cash withdrawn from GLF	23,000	21,455	-1,545

### 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

On 10 June 2009 the Minister of State at the Department of Transport gave a written statement to Parliament announcing increases in the rate of light dues to take effect from 1 July 2009 and the 1 April 2010. The implementation of these changes will increase light dues income and address the issues outlined in "Economic environment - Light dues" on page 22.

### 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 2009 bears to the amount invoiced by suppliers during the year equated to a 18 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	Moray Waddell	Phillip Day
£000 Note 1 Salary including performance pay	90-95	80-85	75-80	65-70
£000 Note 2 Benefits in kind	-	-	-	-
£000 Note 3 Real increase in pension and related lump sum from 31 March 2009	0-2.5	0-2.5/2.5-5.0	0-2.5/0	10-12.5
£000 Note 4 Total accrued pension at 31 March 2009 and related lump sum	0-5	10-15/40-45	20-25/45-50	10-15
£000 Note 5 Cash Equivalent transfer value at 31 March 2008	51	259	325	16
£000 Note 6 Cash Equivalent Transfer value at 31 March 2009	83	299	352	122
£000 Note 7 Real increase in Cash Equivalent Transfer Value after adjustment for inflation and changes in market investment factors	26	14	1	103
Note 8 Employer contribution to partnership pension account including risk benefits cover	-	-	-	-

## 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;

Commissioners' are paid a basic remuneration per annum and are eligible for an additional daily payment for each day exceeding 20 days in the year	
Basic Annual Remuneration	£ 9,708
Additional Daily Payment	486
Chairman's Remuneration	19,416
Vice-Chairman's Remuneration	12,948
Total Amount Paid 2008/09 including National Insurance Contributions	76,955
Total Amount Paid 2007/08 including National Insurance Contributions	76,392

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 2008.

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 2008/2009 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:

	2008/09	2007/08
	£	£
Captain George Sutherland	19,416	18,936
Sir Andrew Cubie	12,948	12,624
Mike Close (from 1 July 2008)	7,281	0
John Ross (from 1 October 2008)	4,854	0
Robert Quayle	9,708	9,468
Alistair Whyte	9,708	9,468
Captain Kenneth MacLeod (to 24th July 2008)	3,053	9,468
Peter Mackay CB (to 6th October 2008)	5,036	9,468

# Statement on Internal Control

## 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 2009 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.

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.

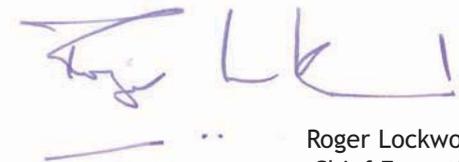
The key processes in place are:

- 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;
- regular reviews of compliance with the Framework Document for the General Lighthouse Authorities - last revised July 2008 - that governs the relationship between the Department for Transport and the General Lighthouse Authorities;
- 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 2009 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.

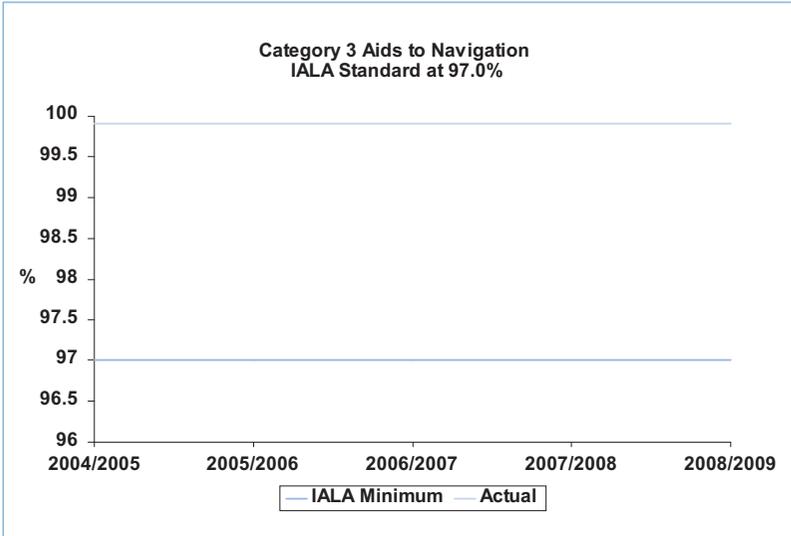
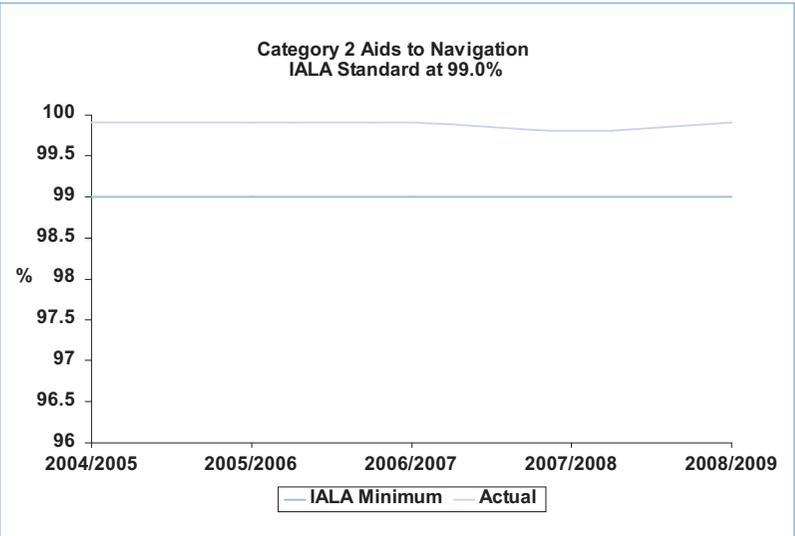
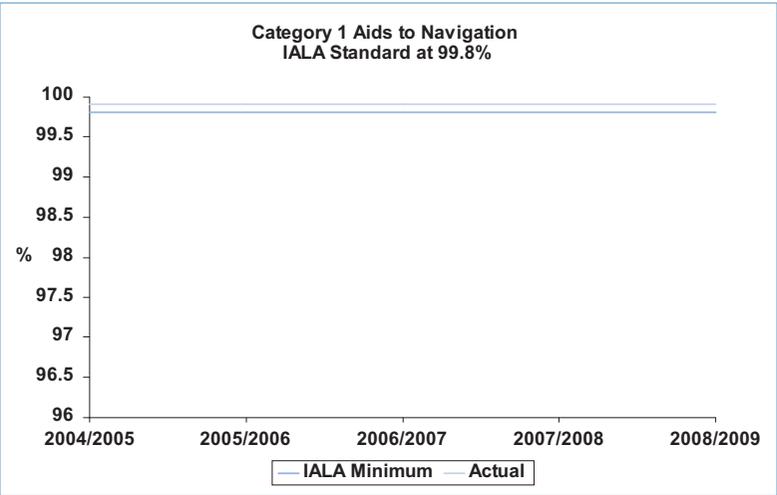
Since the three authorities have now adopted the guidance issued in the International Association of Marine Aids to Navigation and Lighthouse Authorities' (IALA) document "Aids to Navigation Guide", these headings have been changed. In particular, they reflect the changes to availability targets being 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%

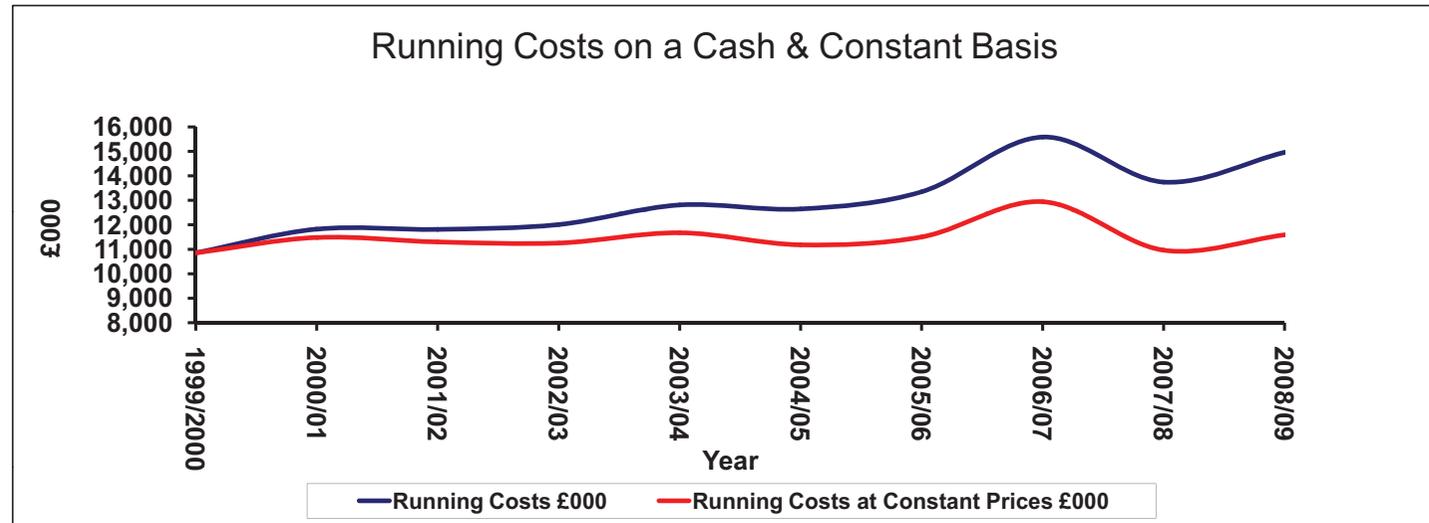
However, in moving towards the internationally-agreed performance criteria, it has proved impossible to back-calculate statistics for previous years because of the necessary changes to the groupings of Aids to Navigation.

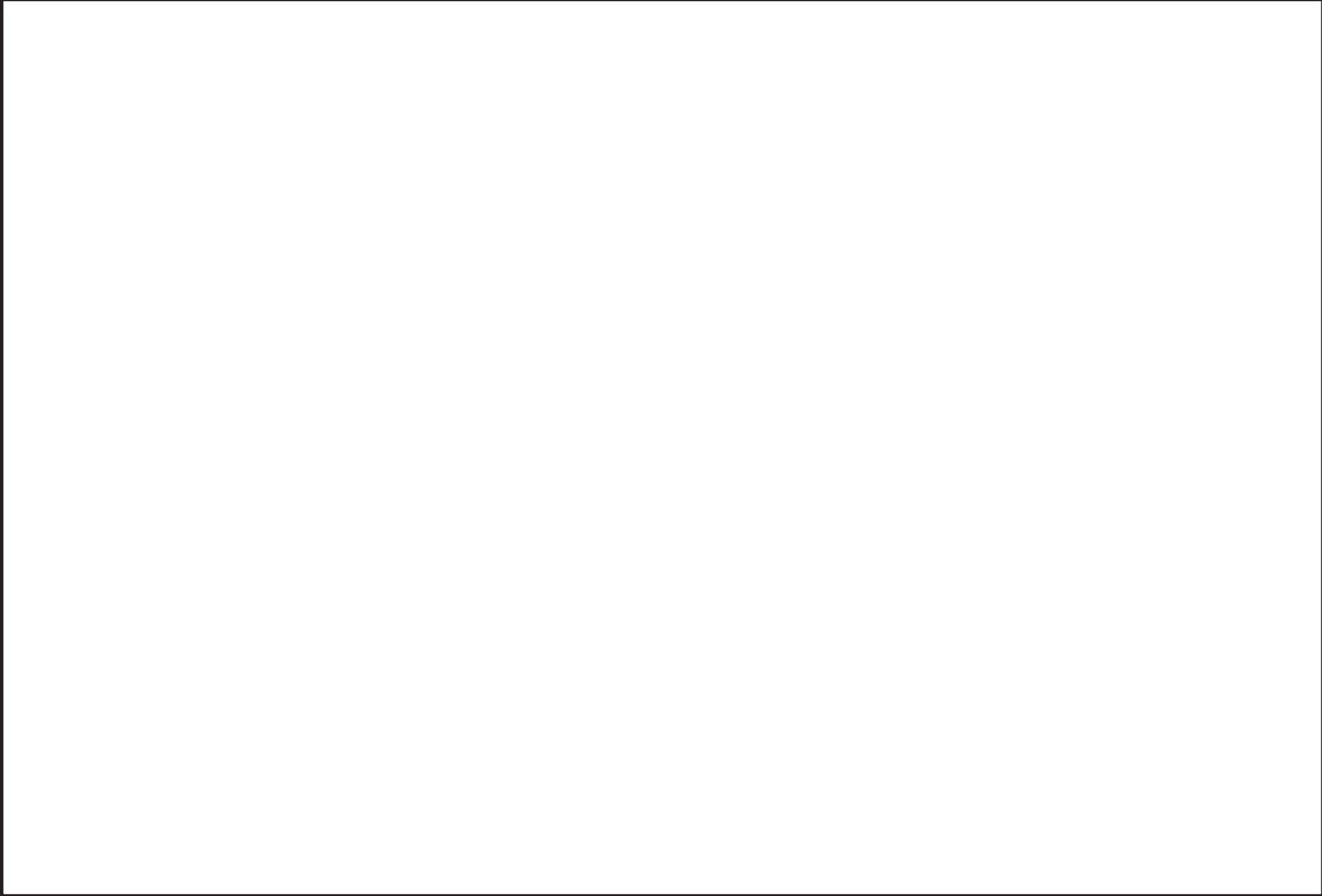
ATON TYPE	CAT	IALA MIN	2004/2005		2005/2006		2006/2007		2007/2008		2008/2009	
			ACT	DIFF								
BUOYS	1		99.9%	0.1%	99.8%	-	99.8%	-	99.9%	0.1%	99.9%	0.1%
BUOYANT BEACON	1										99.6%	-0.2%
LIGHTS	1		99.9%	0.1%	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%	99.9%	0.1%
RACONS	1		100.0%	0.2%	100.0%	0.2%	99.9%	0.1%	99.9%	0.1%	99.8%	0.0%
<b>TOTAL</b>	<b>1</b>	<b>99.8%</b>	<b>99.9%</b>	<b>0.1%</b>								
BUOYS	2		99.9%	0.9%	99.8%	0.8%	99.8%	0.8%	99.8%	0.8%	99.9%	0.9%
LEADING LIGHT	2										100.0%	1.0%
LIGHTS	2		99.9%	0.9%	99.9%	0.9%	99.9%	0.9%	99.8%	0.8%	99.8%	0.8%
<b>TOTAL</b>	<b>2</b>	<b>99.0%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.9%</b>	<b>0.9%</b>	<b>99.8%</b>	<b>0.8%</b>	<b>99.9%</b>	<b>0.9%</b>
BUOYS	3		99.9%	2.9%	100.0%	3.0%	99.9%	2.9%	99.9%	2.9%	99.9%	2.9%
BEACON	3		100.0%	3.0%	100.0%	3.0%	100.0%	3.0%	100.0%	3.0%	100.0%	3.0%
<b>TOTAL</b>	<b>3</b>	<b>97.0%</b>	<b>99.9%</b>	<b>2.9%</b>								



# Running Costs in Cash and Constant Prices

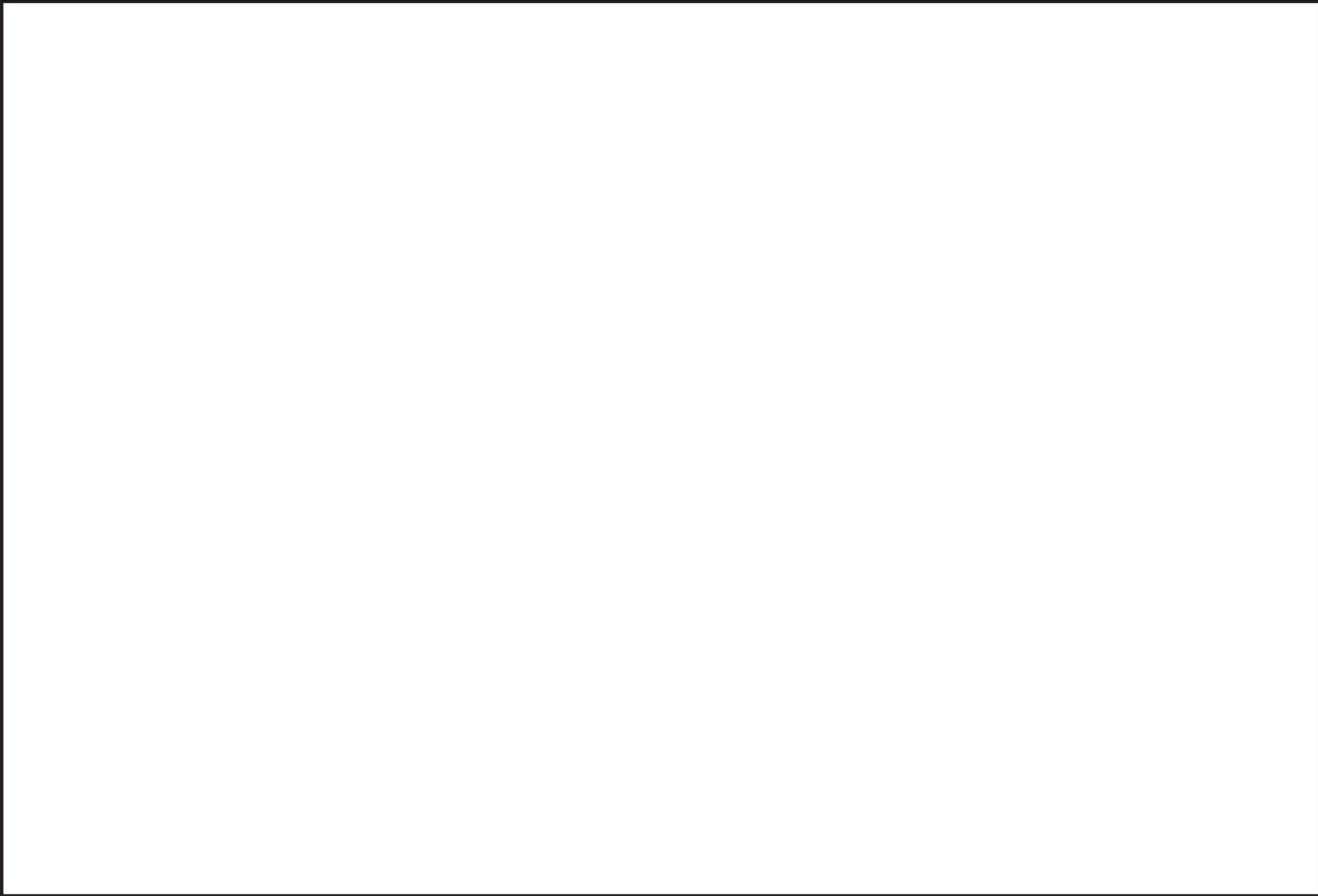
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Running Costs £000	10,850	11,824	11,814	12,013	12,810	12,647	13,352	15,586	13,746	14,961
Variance %		8.98%	-0.08%	1.68%	6.63%	-1.27%	5.57%	16.73%	-11.81%	8.84%
Running Costs at Constant Prices £000	10,850	11,481	11,302	11,256	11,678	11,181	11,501	12,943	10,962	11,587
Variance %		5.82%	-1.55%	-0.41%	3.74%	-4.25%	2.86%	12.53%	-15.30%	5.70%
Average RPI	166.35	171.32	173.88	177.53	182.47	188.15	193.11	200.32	208.59	214.78
Annual Change %		2.99%	1.49%	2.10%	2.79%	3.11%	2.64%	3.73%	4.13%	2.97%





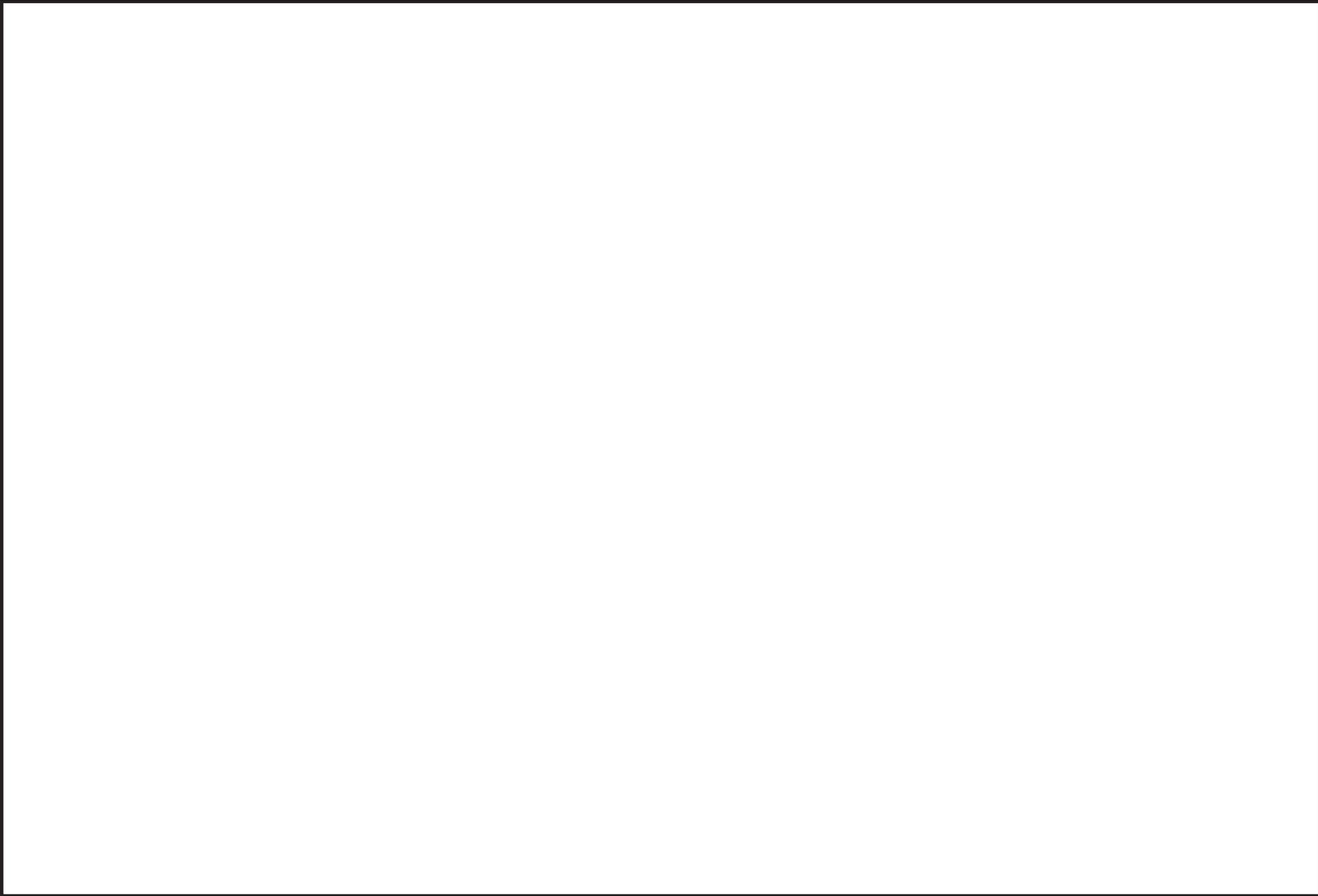
# Income and Expenditure Account

	Note	2008/2009 £000's	2007/2008 £000's
<b>INCOME</b>			
Advances from the General Lighthouse Fund	18	21,455	19,970
Other Operating Income	2	1,033	713
		<b>22,488</b>	<b>20,683</b>
<b>EXPENDITURE</b>			
Staff Costs	3	7,424	7,274
Pension Costs	3	3,048	2,491
Amortisation	8	80	95
Depreciation	9	3,625	3,578
Other Operating Charges	4a	7,523	6,672
<b>TOTAL OPERATING COSTS</b>	4b	<b>21,700</b>	<b>20,110</b>
<b>OPERATING SURPLUS</b>			
Notional Credit on Net Liabilities		1,377	1,488
Interest on Pension Scheme Liability	17	-4,426	-3,877
Gain/Loss on disposal of Fixed Assets		40	-317
Interest Receivable	5	12	23
Interest Payable	6	-1,191	-1,248
<b>Total</b>		<b>-4,188</b>	<b>-3,931</b>
<b>Net Operating Deficit of the Northern Lighthouse Board</b>		<b>-3,400</b>	<b>-3,358</b>
<b>Net Expenditure on behalf of all General Lighthouse Authorities</b>	7	<b>-43</b>	<b>-35</b>
<b>Reversal of Notional Credit on Net Liabilities</b>	1l	<b>-1,377</b>	<b>-1,488</b>
<b>Deficit for the Financial Year carried to the Accumulated Reserve</b>		<b>-4,820</b>	<b>-4,881</b>
All results are derived from continuous operations			



# Statement of Total Recognised Gains and Losses

	Note	2008/2009 £000's	2007/2008 £000's
<b>Deficit for the Financial Year carried to the Accumulated Reserve</b>		<b>-4,820</b>	<b>-4,881</b>
Actuarial Gain / (Loss)	17	7,432	8,671
Net Club Pension Transfers	17	-98	-70
Unrealised loss on revaluation of properties	18	-113	95
<b>Total Gain for the Financial Year</b>		<b>2,401</b>	<b>3,815</b>



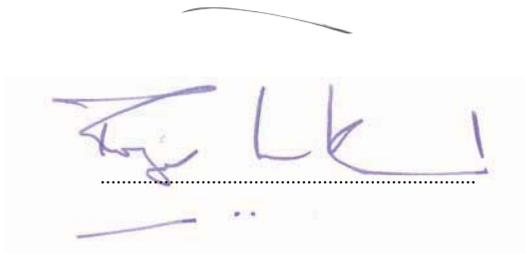
# Balance Sheet as at 31 March 2009

	Note	2008/2009 £000's	2007/2008 £000's
<b>Fixed Assets</b>			
Intangible Assets	8	269	176
Tangible Assets	9	53,847	54,872
Investment Assets	10	952	1,065
		<b>55,068</b>	<b>56,113</b>
<b>Current Assets</b>			
Stock	11	494	567
Debtors	12	564	473
Cash in Bank and in hand	13	193	270
<b>Total</b>		<b>1,251</b>	<b>1,310</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>-3,182</b>	<b>-2,637</b>
<b>Net Current Assets</b>		<b>-1,931</b>	<b>-1,327</b>
<b>Total Assets less Current Liabilities</b>		<b>53,137</b>	<b>54,786</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>-21,251</b>	<b>-22,398</b>
<b>Provisions for Liabilities and Charges</b>			
Provisions	16	-2,234	-944
<b>Net Assets excluding pension liability</b>		<b>29,652</b>	<b>31,444</b>
Pension Liabilities	17	-67,736	-72,020
<b>Total Assets less all Liabilities</b>		<b>-38,084</b>	<b>-40,576</b>
<b>Financed By:</b>			
Accumulated Reserve	18	-39,026	-41,638
Revaluation Reserve	18	782	887
Government Grant Reserve	18	160	175
<b>Total</b>		<b>-38,084</b>	<b>-40,576</b>

The financial statements on pages 45 - 86 were approved by the Commissioners of Northern Lighthouses on 29 September 2009, and signed on its behalf by:



Chairman



Chief Executive

29 September 2009

Date

# Cash Flow Statement for the year ended 31 March 2009

	2008/2009 £000's	2007/2008 £000's
<b>Cash Flow Statement</b>		
Net cash in/(out) flow from operating activities	4,889	3,740
Net Expenditure on behalf of all GLAs	-43	-35
Returns on Investments and Servicing of Finance(Note 2)	-1,212	-810
Capital Expenditure(Note 3)	-2,615	-2,152
<b>Net Cash Inflow before Financing</b>	<b>1,019</b>	<b>743</b>
Financing	-1,096	-1,499
<b>(Decrease)/Increase in Cash</b>	<b>-77</b>	<b>-756</b>
 <b>RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS</b>		
(Decrease)Increase in cash in the year	-77	-756
Financing	1,081	1,484
	<b>1,004</b>	<b>728</b>
Net debt at start of year	-23,203	-23,932
Net debt at end of year	-22,199	-23,203

NOTES TO THE CASH FLOW STATEMENT

Note 1

Reconciliation of Operating Deficit to Net Cash Flow for Operating Activities

	2008/2009 £000's	2007/2008 £000's
Operating Surplus	788	573
Pension Benefits In / (Outflow)	-2,793	-3,135
Current Service Cost	1,514	1,702
Depreciation	3,705	3,673
Increase/(Decrease) in Provisions	1,290	783
Decrease/(Increase) in Stock	73	-49
Decrease/(Increase) in Debtors	-90	-559
Increase/(Decrease) in Creditors	402	752
<b>Net Cash Outflow from Operating Activities</b>	<b>4,889</b>	<b>3,740</b>

Note 2

Return on Investments and Servicing of Finance

Interest Received	12	23
Interest Paid	-1,224	-832
	<b>-1,212</b>	<b>-809</b>

Note 3

Capital Expenditure

Payments to acquire tangible fixed assets	-2,608	-2,084
Payments to acquire intangible fixed assets	-166	-40
Receipts from sales of tangible fixed assets	159	-28
	<b>-2,615</b>	<b>-2,152</b>

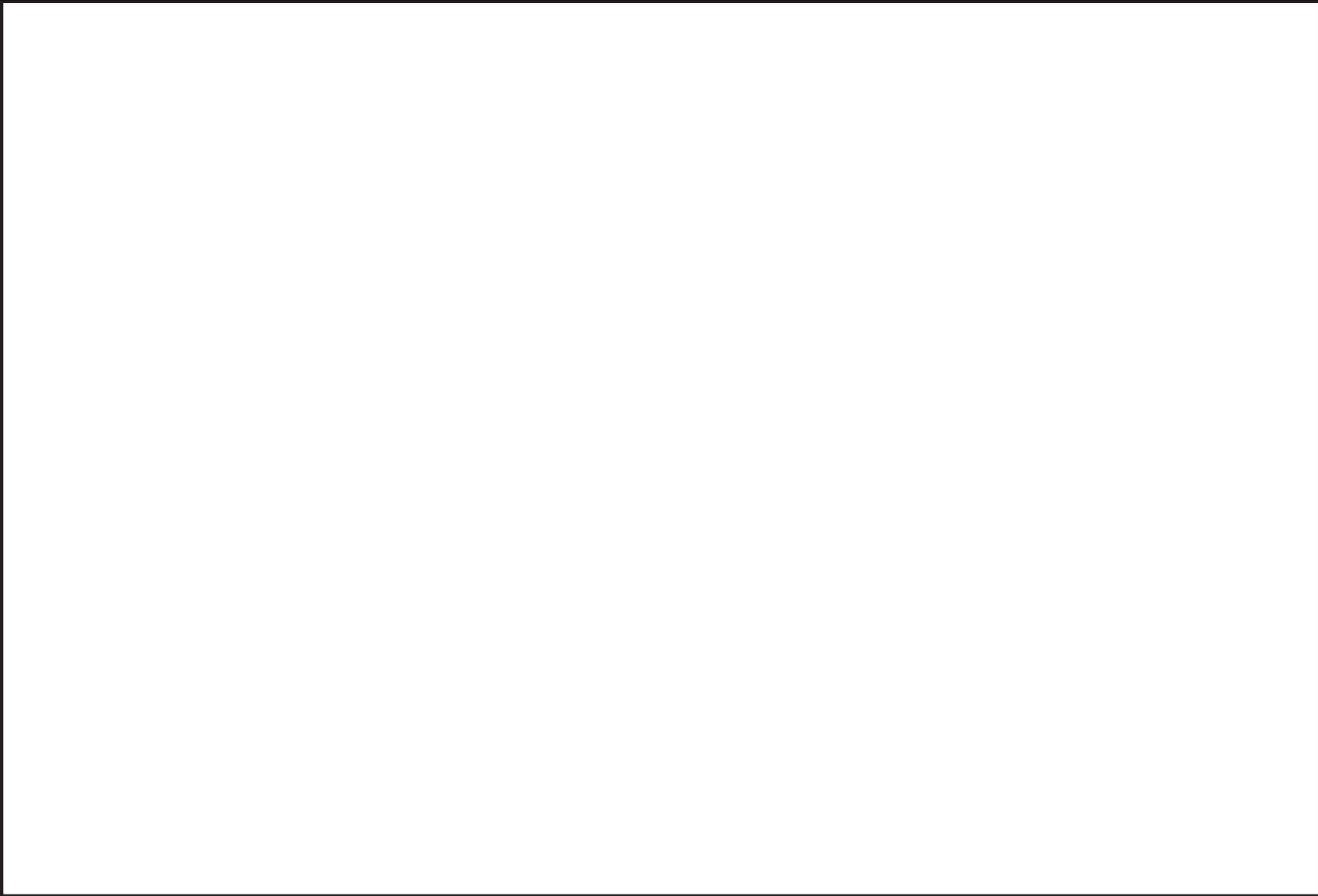
Note 4

Financing

Capital Element Of Finance Lease Payments	-1,081	-1,484
Movement in Capital Grant Reserve	-15	-15
	<b>-1,096</b>	<b>-1,499</b>

**Note 5**

Analysis of the changes in net funds/(debts)	1 April 2008	Cash Flow	Non-Cash	31 March 2009
	£000	£000	£000	£000
Cash at Bank and in hand	270	-77	0	193
Finance leases	-23,473	1,081	0	-22,392
Total Funds/(Debt)	-23,203	1,004	0	-22,199



# Notes to the Accounts for the year ended 31 March 2009

## 1. Accounting policies

### (a) Accounting convention

These Accounts have been prepared in accordance with the 2008/09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM 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 FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Board for the purpose of giving a true and fair view has been selected. The Board's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition, these accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Transport on 10 March 2003.

### (b) Going concern

	£000
Net Liabilities on balance sheet at 31 March 2009	38,084

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. All pension assumptions are set out in Note 17.

### (d) Intangible assets and amortisation

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

### (e) Tangible assets and depreciation

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

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

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

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

CATEGORIES	DEPRECIATION LIVES
<b>Land and Buildings</b>	
Land	Not Depreciated
Lighthouse (building structures)	50 years
Lighthouse improvement	25 years or remaining life if less
Buildings	50 years
<b>Tenders &amp; Ancillary Craft</b>	
Tenders*	25 years or remaining life if less
Tenders (Dry Dock and Repair)	Depreciated over 24 months until next dry docking
Work Boats	10 years
<b>Buoys</b>	
Bodies	25 years or remaining life if less
Solarisation Costs	10 years
<b>Plant and Equipment</b>	
Lighthouses	15 years
Automation Equipment	15 years
Racons	15 years
Radio Beacons	15 years
Depot/Workshops	10 years
Office Equipment	10 years
Vehicles	5 years
Computers - major systems	5 years
Computers - other	3 years
* Tenders held under finance leases	25 years being the expected useful life. The primary lease period is less than this, but a secondary period sufficient to cover the balance is available

**(f) 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 2009 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 2007/08). 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 2009 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.

**(p) Financial Assets and Liabilities**

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

**Financial Assets**

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

**Financial Liabilities**

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

**Embedded Derivatives**

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is split out and reported at fair value with gains and losses being recognised in the Net Expenditure Account. The Board has carried out a review of its contracts and has determined that, as at 31 March 2009, no contracts contained embedded derivatives.

**Determining Fair Value**

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

## 2. Other operating income

	2008/2009 £000's	2007/2008 £000's
Buoy Rental	178	134
Property Rental	40	62
Other Commercial Income	787	481
Sundry Receipts	28	36
<b>Total</b>	<b>1,033</b>	<b>713</b>

## 3. Staff and pension costs

	2008/2009 £000's	2007/2008 £000's
<b>Note 3(a) - Staff costs</b>		
Wages and Salaries	6,896	6,532
Social Security Costs	526	505
Redundancy Costs	2	237
<b>Total</b>	<b>7,424</b>	<b>7,274</b>

Staff costs capitalised in 2008/2009 were NIL (NIL - 2007/2008).

	2008/2009	2007/2008
Average monthly number of employees		
Lighthouses		
Monitor Centre	5	5
Part-time Local Lighthouse Staff	61	65
Tenders	66	64
Bases and Workshops	37	37
Head Office	94	90
<b>Total</b>	<b>263</b>	<b>261</b>
Including Part-Time Staff	73	76
Total expressed as Full-Time Equivalents	197.13	192.46
Not included included in these numbers are:		
Temporary officers and crew - Full Time Equivalent	3.01	3.18
Temporary office staff - Full Time Equivalent	1.25	0.76

	2008/2009 £000's	2007/2008 £000's
<b>Note 3(b) - Pension costs</b>		
Operating Cost	1,514	1,702
Employer's contribution to other pension schemes	1,520	706
Annual Compensation Payments	14	83
<b>Total</b>	<b>3,048</b>	<b>2,491</b>

#### 4(a). Other operating charges

	2008/2009 £000's	2007/2008 £000's
Communications	322	336
Fuel, Water, Heat and Light	341	354
Helicopter Flying	735	788
Information Technology	412	387
Insurance	233	238
Legal and Consultancy Costs	259	398
Other Staff-related Costs	517	479
Others	321	265
Repairs and maintenance	2,223	1,756
Travelling, subsistence and hospitality	1,091	953
Ships' fuel	1,069	718
<b>Grand Total</b>	<b>7,523</b>	<b>6,672</b>

Auditors' remuneration is met directly by the General Lighthouse Fund. The Board's share of the audit remuneration was

	2008/2009 £	2007/2008 £
Auditor's Fees	36,500	36,500

### Operating Surplus

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

	2008/2009 £000's	2007/2008 £000's
Deficit stated after charging/(crediting)		
Others	41	26
Plant	460	501
Total	501	527

#### 4(b). Total operating costs

	2008/2009 £000's	2007/2008 £000's
Lighthouses	2,285	2,049
Buoys	98	195
Tenders	5,000	4,427
Bases	1,097	658
Workshop	1,565	1,382
Headquarters	4,914	4,974
Redundancy	2	61
<b>Running Costs</b>	<b>14,961</b>	<b>13,746</b>
Depreciation and amortisation	3,705	3,673
Pension Costs	3,083	1,908
Provisions for liabilities & charges	-49	783
<b>Total</b>	<b>21,700</b>	<b>20,110</b>

## 5. Interest receivable

	2008/2009 £000's	2007/2008 £000's
Bank Deposits	12	23
Other Short term Deposits	0	0
<b>Total</b>	<b>12</b>	<b>23</b>

## 6. Interest payable

	2008/2009 £000's	2007/2008 £000's
On lease of NLV POLE STAR	351	378
On lease of NLV PHAROS	840	870
<b>Total</b>	<b>1,191</b>	<b>1,248</b>

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

	2008/2009 £000's	2007/2008 £000's
Actuarial Valuation	25	25
Legal Fees for the collection of Light Dues	18	10
<b>Total</b>	<b>43</b>	<b>35</b>

## 8. Intangible Fixed Assets

	2008/2009 £000's Software	2007/2008 £000's Software
<b>Cost</b>		
Balance at 1 April 2008	472	427
Additions	166	40
Disposals	0	0
Transfers	7	5
Balance at 31 March 2009	<b>645</b>	<b>472</b>
<b>Amortisation</b>		
Balance at 1 April 2008	<b>296</b>	<b>201</b>
Provided	80	95
Disposals	0	0
Transfers	0	0
Balance at 31 March 2009	<b>376</b>	<b>296</b>
<b>Net Book Value</b>		
Net Book Value at 1 April 2008	<b>176</b>	<b>226</b>
Net Book Value at 31 March 2009	<b>269</b>	<b>176</b>

## 9. Tangible Fixed Assets

	Land & Buildings	Anciliary Craft	Tenders	Buoys	Plant & Equipment	Computer Equipment	Assets in course of Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>								
Balance at 1 April 2008	28,019	9	27,597	3,531	21,715	478	3,025	84,374
Additions	448	0	232	27	765	36	1,298	2,806
Revaluations	0	0	0	0	0	0	0	0
Disposals	-311	0	-12	-38	-534	0	0	-895
Reclassifications	0	0	0	0	0	0	-88	-88
Transfers	870	0	0	6	705	82	-1,670	-7
Balance at 31 March 2009	29,026	9	27,817	3,526	22,651	596	2,565	86,190
<b>Depreciation</b>								
Balance at 1 April 2008	11,587	5	3,462	1,992	12,147	309	0	29,502
Adjustments	0	0	0	0	0	0	0	0
Provided during the year	974	1	1,186	174	1,230	60	0	3,625
Disposals	-298	0	-4	-5	-469	0	0	-776
Reclassifications	-8	0	0	0	0	0	0	-8
Balance at 31 March 2009	12,255	6	4,644	2,161	12,908	369	0	32,343
<b>Net Book Value</b>								
Net Book Value at 1 April 2008	16,432	4	24,135	1,539	9,568	169	3,025	54,872
Net Book Value at 31 March 2009	16,771	3	23,173	1,365	9,743	227	2,565	53,847

The cost of partly complete Capital Works Projects as part of the approved Capital Works Programme is:

	<b>£000</b>
Assets in course of construction	2,565
	<b>Tenders &amp; Craft</b>
<b>Leased Assets included above</b>	<b>£000</b>
Net Book Value	22,114

The net book value of land and buildings is entirely in respect of freehold assets. Further information is given in Note 26 - Third Party Assets.

as at 14 December 2003

	<b>£</b>
Commissioners also own antiques that have been valued at	602,980

## 10. Investment Assets

	2008/09 £000	2007/08 £000
Holiday cottages		
As at 1 April 2008	1,065	970
Additions	0	0
Depreciation	-7	-7
Revaluations	-106	102
As at 31 March 2009	952	1,065
Amount taken to Statement of Total Recognised Gains and Losses	-113	95

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

## 11. Stock

	31 March 2009 £000	31 March 2008 £000
Mooring Chain	39	79
Base Stores	121	108
Workshop Stores	220	277
Fuel Oil	114	103
<b>Total</b>	<b>494</b>	<b>567</b>

## 12. Debtors

	31 March 2009 £000	31 March 2008 £000
Trade Debtors	102	10
Other Debtors	0	0
Prepayments and accrued income	294	339
VAT Recoverable	168	124
<b>Total</b>	<b>564</b>	<b>473</b>

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

Central Government	179	130
Local Authorities	2	0
NHS Trusts	0	0
Public Corporations	26	5
Bodies external to Government	357	338
<b>Total</b>	<b>564</b>	<b>473</b>

### 13. Cash at bank and in hand

	31 March 2009 £000	31 March 2008 £000
Balance at 1 April 2008	270	1,025
Net cash (outflow)/inflow in year	-77	-755
Balance at 31 March 2009	193	270
The following balances are held at 31 March		
Commercial Banks	191	270
Cash in hand	2	0

### 14. Creditors: amounts falling due within one year

	31 March 2009 £000	31 March 2008 £000
Trade Creditors	903	744
Taxes and Social Security Costs	225	195
Accruals	880	607
Other creditors	33	16
Obligations under Finance Leases	1,141	1,075
<b>Total</b>	<b>3,182</b>	<b>2,637</b>

	31 March 2009 £000	31 March 2008 £000
<b>Amounts included above that fall within the Whole of Government Accounting boundary are:</b>		
Central Government	274	214
Local Authorities	1	4
NHS Trusts	0	0
Public Corporations	296	9
Bodies external to Government	2,611	2,410
<b>Total</b>	<b>3,182</b>	<b>2,637</b>

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

	31 March 2009 £000	31 March 2008 £000
Obligations under Finance Leases	21,251	22,398
<b>Amounts included above that fall within the Whole of Government Accounting boundary are:</b>		
Central Government	0	0
Local Authorities	0	0
NHS Trusts	0	0
Public Corporations	0	0
Bodies external to Government	21,251	22,398
<b>Total</b>	<b>21,251</b>	<b>22,398</b>

## 16. Provisions

	Restructuring Costs	Annual Payments	MNOFF Contributions	Total
	£000	£000	£000	£000
	(i)	(ii)	(iii)	
Provisions at 1 April 2008	201	143	600	944
Increase in provision	0	14	1,500	1,514
Provisions utilised	-176	-35	0	-211
Provisions not utilised and written back	-13	0	0	-13
Provisions at 31 March 2009	12	122	2,100	2,234

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. Pension liabilities

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

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

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

	2008/09	2007/08
Partnership Pension Accounts	£ 8,000	£ 7,000

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

There were no contributions due to the partnership pension providers at the 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 2008, valued as at 31 March 2008. The accumulated liability for the Northern Lighthouse Board in respect of all current employees was in the order of £25,173,000. The estimated liability for pensions in payment and deferred pensions of former employees of the Northern Lighthouse Board was £52,692,000.

The actuary used the '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) & 5.7% (post retirement), salary growth of 5.45%, price inflation 3.65% and the rate of increase for pensions in payment and deferred pensioners 3.6%. It also applied standard actuarial tables for mortality rates.

The actuary's updated estimate of the liability of ACP's

31 March 2009

£000

122

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

	31 March 2009 £000	31 March 2008 £000
Active Members	24,159	25,169
Deferred Pensioners	5,870	6,557
Pensioners	37,707	40,294
Total Liability at Projected Unit Method	67,736	72,020
Real Discount Rate	3.20%	2.50%
Inflation Rate	2.75%	3.70%
Discount Rate	6.04%	6.20%
Salary increase assumption	3.75%	4.70%
Rate of increase for pensions in payment	2.75%	3.70%
Rate of increase for pensions in deferment	2.75%	3.70%

	£000	£000	£000
<b>Scheme liability at 1 April 2008</b>			72,020
Current service cost		1,514	
Past service costs		0	
Interest on pension scheme liability		4,426	5,940
<b>Benefits payable</b>			
Pensions or annuities to retired employees and dependents	-3,001		
Commutations and lump sum benefits:			
On retirement	-125		
On early retirement	-2		
On death	0		
Injury benefits	0		
		-3,128	
<b>Pension payments to and on account of leavers</b>			
Refunds to members leaving service	-6		
Group transfers to other schemes	0		
Individual transfers to other schemes	0		
		-6	
			-3,134
<b>Income received in respect of enhancements</b>			
Employees			
Purchase of added years	71		
WPS Contributions	133		
Employers			
Bringing forward the payment of accrued lump sums	0		
Enhancement to pensions on departure	0		
Enhancement to pensions on retirement	0		
		205	
<b>Pension transfers in</b>			
Group transfers in from other schemes	0		
Individual transfers in from other schemes	39		
		39	
			244
<b>Actuarial Gains and Losses</b>			
Experience arising on the scheme liabilities	0		
Changes in assumptions underlying the present value of scheme liabilities	-7,432		
		-7,432	
Club transfers in		98	
Club transfers out		0	
			-7,334
<b>Scheme liability at 31 March 2009</b>			<b>67,736</b>

	£000
Opening Balance	72,020
Closing Balance	67,736
<b>Decrease in Pension Reserve</b>	<b>-4,284</b>
Operating Cost	1,514
Financing Costs	4,426
Pension Payments	-2,890
Statement of Recognised Gains and Losses	-7,334
<b>Total</b>	<b>-4,284</b>

	31 March 2009	31 March 2008	31 March 2007	31 March 2006	31 March 2005
	£000	£000	£000	£000	£000
Experience Gains and Losses on Scheme Liability amount	0	280	-180	-173	-788
	0%	0%	0%	0%	-1%
Total amount recognised in the Statement of Total Recognised Gains and Losses	-7,432	-8,671	9,542	8,405	782
	-11%	-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.

## Merchant Navy Officers' Pension Fund

The Board is a Participating Employer of the Merchant Navy Officers' Pension Fund (MNO PF) which is a defined benefit scheme providing benefits based on final pensionable salary. The MNO PF 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 MNO PF are given the option of continuing MNO PF 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.

Contributions to the MNO PF as follows:

	2008/2009	2007/2008
	£	£
MNO PF Contributions	11,000	112,000

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 2008/2009 2 Officers were members of MNO PF.

The rules of the MNO PF 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 MNO PF 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 MNO PF are entitled to demand a contribution to meet the deficit in the Post 1978 section from all employers who have ever participated in the Fund.

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

## 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.

	2008/2009 £000	2007/2008 £000
<b>Accumulated Reserve</b>		
Opening Balance	-41,638	-45,428
Deficit for the Year	-4,820	-4,881
Actuarial (Loss) / Gain	7,432	8,671
Closing Balance	-39,026	-41,638

The balance on the Accumulated Reserve is analysed as follows:

	2008/2009 £000	2007/2008 £000
Accumulated Reserve at 31 March 2009 excluding Pension Liability	28,709	30,382
Pension Liability	-67,736	-72,020
Accumulated Reserve	-39,026	-41,638

(c) **Revaluation Reserve**

The revaluation reserve relates entirely to the revaluation of investment properties

	31 March 2009 £000	31 March 2008 £000
Opening Balance	887	785
Add effect of valuations	-105	102
Closing Balance	782	887

(d) **Government Grant Reserve**

	31 March 2009 £000	31 March 2008 £000
Opening Balance	175	190
Add Increase in reserve	0	0
Less charges to reserve	-15	-15
Closing Balance	160	175

## 19. Obligations under finance leases

	31 March 2009 £000	31 March 2008 £000
Amounts payable within:		
one year	1,141	1,075
in more than one but less than two years	1,202	1,134
in two to five years	4,005	3,784
over five years	16,044	17,480
<b>Total</b>	<b>22,392</b>	<b>23,473</b>

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	13 years
Frequency of payments	½ yearly in advance
Interest rate charged	5.38%

### **NLV Pole Star**

Length of lease	25 years
Year commenced	2000
Outstanding lease period	17 years
Frequency of payments	½ yearly in advance
Interest rate charged	4.71%

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

## 20. Obligations under operating leases

	31 March 2009 £000	31 March 2008 £000
<b>Obligations under Operating Leases</b>		
Expiring within one year		
Land & Buildings	13	12
Other	31	49
<b>Total</b>	<b>44</b>	<b>61</b>
<b>Expiring within two to five years</b>		
Land & Buildings	15	20
Other	614	584
<b>Total</b>	<b>629</b>	<b>604</b>
<b>Expiring after five years</b>		
Land & Buildings	7	1
Other	0	0
<b>Total</b>	<b>7</b>	<b>1</b>

The obligation for operating leases expiring within two and five years includes the following costs for the operating lease for a helicopter

533,460

511,000

## 21. Capital commitments

	31 March 2009 £000	31 March 2008 £000
Contracted (but not provided for in Accounts)	803	1,065

## 22. Post-retirement benefits

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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

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### Protection and indemnity

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

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

The mutual method of insuring these risks includes a re-insurance programme and the pooling arrangements of the International Group. However, in common with all members of International Group Clubs, the Board could be liable for additional premium payments (Supplementary Calls) to cover any claims which cannot be met from funds available. The Standard Club has closed the years up to and including 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 an additional contribution to fund any deficit arising from the valuation as at 31 March 2009. 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

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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

	2008/2009 (£)	2007/2008 (£)
Notional Expenditure	55,000	0
Notional Income	130,000	984,000

## 25. Related parties

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### 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.

	2008/2009 £000	2007/2008 £000
Advances from the General Lighthouse Fund	21,455	19,970
Expenditure for all GLAs	-43	-35

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

### The North Ronaldsay Trust

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

### Scotland's Lighthouse Museum Ltd

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

By agreement, the former Chief Executive who left the Board on 30 April 2006 remained as the Board's nominee to the SLM Board until to 30 April 2009. As part of these arrangements it was agreed to make an annual payment of £800 for three years to cover travel and subsistence costs to attend meetings, etc. The payments were made to the Museum and the arrangement ended on 30 April 2009. To date the only other 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.

### Black Bequest

The Black Bequest is a registered charity whose primary purpose is to provide support to former lighthouse keepers and their dependants.

The Trustees are the Chairman, Vice-Chairman and Chief Executive. There have been no transactions between the Trust and the Board.

### The Commissioners of Northern Lighthouses 2000 Trust

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

## 26. Third party assets

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

	31 March 2009	31 March 2008
Value of the heritage collection	602,980	602,980
Cash and investments	51,000	59,000

## 27. Financial instruments

Financial Reporting Standard 29 *Financial Instruments: Disclosures* (FRS 29) requires disclosure of the role which financial instruments have had during the year in creating or changing the risks the Board faces in undertaking its activities. Because of the largely non-trading nature of its activities and the method of funding by the General Lighthouse Fund, the Board is not exposed to the degree of financial risk faced by other business entities. The Board has borrowing powers under the Merchant Shipping Act 1995 but very limited powers to invest surplus funds.

As permitted by FRS 29, debtors and creditors which mature or become payable within 12 months from the 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. During the year the income to the General Lighthouse Fund has been adversely effected by the Global downturn, and in particular, the reduction in shipping traffic and investment returns. The Department for Transport has taken steps to increase the light dues charges to compensate. In association with the GLAs the Department for Transport has also revised the contingency reserve level to be held in the General Lighthouse Fund.

## Interest rate risk

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

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

## Currency risks

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

## Fair values

Set out below is a comparison by category of the book values and fair values of the Board's financial assets and liabilities as at 31 March 2009.

	Book Value £000	Fair Value £000
Primary Financial Instruments		
Financial Assets		
Cash and Bank at Hand	193	193
Bank Guarantees	400	400
Financial Liabilities	0	0
Finance Lease Obligations	22,392	23,086

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

## 28. Losses

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Obsolete stock and losses amounting to £12,000 were written off during the year.

## 29. Further information

### (a) Number of fixed assets

	31 March 2009	31 March 2008
Lighthouses (including 1 Station providing radio/electric nav aids only)	213	213
Buoys	207	206
Unlit beacons	34	37
Buoyant beacon	1	1
Tenders	2	2

### (b) Number of fixed assets deployed

	31 March 2009	31 March 2008
Lighthouses (including 1 Station providing radio/electric nav aids only)	209	209
Buoys	164	163
Unlit beacons	34	37
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

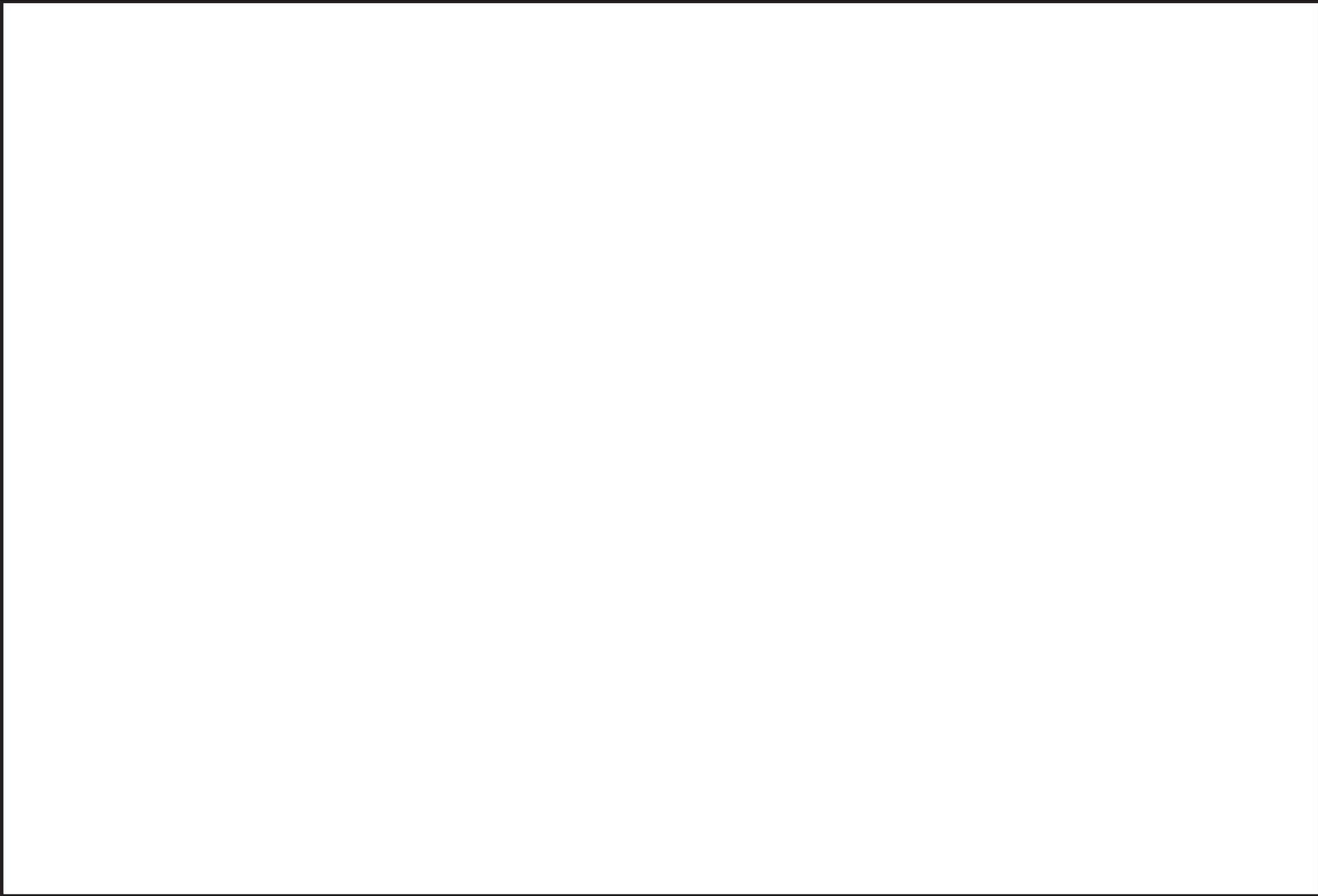
	Number	Remotely Monitored	Analysed by Category		
			Category 1	Category 2	Category 3
<b>LIGHTS</b>					
Lights - over 15 nautical miles range	79	79	79	-	-
Lights - under 15 nautical miles range	130	110	70	60	-
<b>Total Lights</b>	<b>209</b>	<b>189</b>	<b>149</b>	<b>0</b>	<b>-</b>
<b>BUOYS</b>					
Buoys - lit	164	2	5	93	26
Buoyant - beacon	1	-	1	-	-
<b>Total Buoys</b>	<b>165</b>	<b>2</b>	<b>6</b>	<b>3</b>	<b>26</b>
<b>Beacons</b>	<b>34</b>	<b>34</b>	<b>-</b>	<b>-</b>	<b>34</b>
<b>DGPS stations</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>RACON stations*</b>	<b>27</b>	<b>27</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Fog Signals</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>AIS Units</b>					
Lights**	7	7			
Buoys	5	5			
<b>Notes</b>					
* Number of stations with more than one RACON	3	3			
** Number of AIS stations with base units and controllers	7	7			
<b>CONTRACT</b>					
Lights	2				
Buoys	7				
Fog Signals	-				
RACON stations	1				

**LOCAL AUTHORITY**

Light Stations	1,024
Buoy Stations	702
<b>TOTAL</b>	<b>1,726</b>
<b>Trial Buoys</b>	<b>1</b>

# Five Year Summary

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
<b>Five Year Summary</b>					
Advances from the General Lighthouse Fund	21,455	19,970	24,622	20,720	20,465
Operating Income	1,033	713	698	257	318
	22,488	20,683	25,320	20,977	20,783
Expenditure					
Staff costs	7,424	7,274	7,004	6,937	7,657
Pension costs	3,048	2,491	1,537	1,042	1,257
Amortisation	80	95	90	103	0
Depreciation	3,625	3,578	4,032	5,595	3,972
Other operating charges	7,523	6,672	6,053	5,855	6,397
	21,700	20,110	18,716	19,532	19,283
Operating surplus	788	573	6,604	1,445	1,500
Interest on pension scheme liability	-4,426	-3,877	-3,994	-3,566	-3,378
Gain/(Loss) on sale of fixed assets	40	-317	277	-314	10
Interest receivable	12	23	19	18	31
Interest payable	-1,191	-1,248	-391	-845	-888
	-6,353	-4,846	2,515	-3,262	-2,725
Net expenditure on behalf of all GLAs	-43	-35	-37	-81	-40
Surplus/(deficit) for the financial year	-4,820	-4,881	2,478	-3,343	-2,765
Tangible fixed assets	53,847	54,872	56,613	44,085	46,830
Net current assets/(liabilities)	-1,931	-1,327	-381	-8,253	-1,163
Long-term creditors, capital and reserves	59,335	62,974	67,927	44,485	32,801
Pension liability	67,736	72,020	78,247	66,250	55,455
Purchase of tangible fixed assets	2,806	2,123	19,900	4,250	3,624
Average number of employees (including part-time)	263 73	261 76	272 78	285 79	295 89



# Letter of Comfort

## Appendix A

THE DEPARTMENT FOR TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS

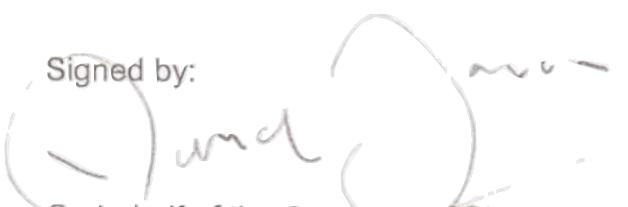
LETTER OF COMFORT IN RESPECT OF GENERAL LIGHTHOUSE FUND PENSIONS CONTINGENT LIABILITIES, TO BE GIVEN TO THE GENERAL LIGHTHOUSE AUTHORITIES

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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