



Department
for Transport

Triennial Review of Northern Lighthouse Board and Trinity House

June 2014

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Contents

Executive summary	4
1. Introduction and background.....	6
Context for this Review	6
Overview of the General Lighthouse Authorities (GLAs)	7
2. Functions and Form	16
Grouping the functions of the NLB and TH	16
Options for the form of the GLAs	17
Options Analysis	20
Stakeholder evidence – summary.....	32
The Three Tests	33
Conclusions and Recommendations	34
3. Corporate Governance Assessment	35
Accountability.....	35
Roles and Responsibilities.....	36
Effective Financial Management.....	38
Communications and Engagement.....	38
Conduct and Leadership.....	39
Cross GLA Considerations	39
4. Ongoing efficiency savings.....	41
5. Concluding Remarks	43
Cost of the Review.....	43

Executive summary

1. In April 2011, the Cabinet Office announced that all Non Departmental Public Bodies (NDPBs) would be reviewed at least once every three years.
2. This joint Triennial Review of Northern Lighthouse Board and Trinity House was launched in December 2013 and the findings are published in this document. Northern Lighthouse Board provides Aids to Navigation in Scotland and the Isle of Man, and Trinity House provides Aids to Navigation in England, Wales, the Channel Islands and Gibraltar.
3. The review assessed the continuing need for both organisations, both in their function and form. It then considered the governance and control arrangements to ensure that they were operating in accordance with principles of good corporate governance.
4. The review has been conducted in accordance with the Cabinet Office Guidance on Reviews of NDPBs, recognising the need for the Review to be proportionate to the relatively small size of both organisations.¹

Key Findings

5. The conclusion from the first stage of the review, is that both Northern Lighthouse Board and Trinity House should continue in their current form, and as NDPBs. The review considered if their primary functions were still needed and concluded that since the majority of these are statutory functions to ensure the safe passage of vessels in UK waters, they were still necessary.
6. The review then considered other delivery models. Whilst there are alternative models, the significant risks to service delivery and transitional costs associated with any structural reorganisation outweigh the potential savings, which are limited by the small size of both organisations. No industry stakeholders involved in this review supported a reorganisation of this kind, even those that pay for the service through Light Dues.
7. On governance, both organisations follow the best practice guidance allowing for their small sizes and unusual statutory bases. The review makes a number of recommendations, summarised below:
 - Both organisations need to ensure they are as transparent and accountable as possible through the proactive publication of information, particularly Trinity House, which is currently exempt from the Freedom of Information Act.

¹ Cabinet Office Guidance: http://www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

- The DfT policy and sponsorship teams should clarify their roles with both NDPBs and across DfT to ensure efficient communication channels.
- A senior DfT official should input into the annual appraisal of the Chair or Executive Chairman, and a written record of all appraisals of Board members should be retained.
- Both organisations should consider measures to increase the diversity on their Boards and ensure there is sufficient engineering expertise within their non-executive members.
- The GLAs need to provide evidence to use as the basis for a discussion with DfT on the increased administrative burden arising from designation and reclassification.
- The arrangements at Trinity House for combining the Chair/CEO role should remain as they are but should be subject to regular review.
- Similar to all three GLAs, the Research and Radio Navigation Directorate should submit a separate corporate plan on an annual basis which should include a distinct objective on efficiency.

1. Introduction and background

Context for this Review

- 1.2** All non-departmental public bodies (NDPBs) are required by Cabinet Office to be reviewed on a three yearly cycle. This forms part of the wider Government agenda to ensure that it delivers its objectives as effectively and efficiently as possible, achieving the best possible value for taxpayers and the public.
- 1.3** This triennial review, launched in December 2013 (hereafter referred to as the ‘review’) will include the Commissioners of Northern Lighthouses, operating as the Northern Lighthouse Board (NLB) and the Corporation of Trinity House (TH) in its capacity as a General Lighthouse Authority. The Commissioners of Irish Lights (CIL), the GLA for the Republic of Ireland and Northern Ireland is only included in this review in so far as they are involved in tri-GLA working.
- 1.4** Both NLB and TH are Executive NDPBs² sponsored by DfT. This type of public body has varying degrees of operational autonomy and independence from Ministers and their sponsoring Department. Both work within a strategic framework set by Ministers who, in turn, are ultimately accountable to Parliament and the public. However, the GLAs are responsible in law for the effective discharge of their statutory duties and responsibilities.
- 1.5** The decision was made to review both organisations together to make the review process as efficient as possible. Since both organisations predominantly discharge the same functions in different parts of the UK, a joint review allowed engagement with the bodies’ shared stakeholders and a shared analysis of alternative delivery models. However, despite their similar responsibilities, the organisations are distinct with differing legal bases and organisational structures. The review was carried out by an independent team of DfT civil servants with external support and challenge provided by a Senior Civil Servant who has previous knowledge and experience of the maritime sector but now works elsewhere within DfT.
- 1.6** The Review was carried out in line with Cabinet Office Guidance for Triennial Reviews of NDPBs.³ The guidance identifies two principal aims for Triennial Reviews:
- To provide robust challenge to the continuing need for individual NDPBs – both their functions and their form (Chapter 2); and

² As determined by Cabinet Office for the purposes of ensuring proper governance and public accountability. This classification does not affect the legal status of Trinity House as a private Corporation.

³ http://www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

- Where it is agreed that a particular body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance (Chapter 3).

1.7 This review is conducted on the basis of the existing constitutional structure of the United Kingdom. The provision of marine AtoN within the UK is a reserved matter.

Stakeholder Engagement

1.8 The review team have actively engaged with the full range of stakeholders for NLB and TH to ensure that their views were taken into consideration. A stakeholder questionnaire (Annex A) was sent out to over 30 organisations. Annex B includes a list of organisations who responded in writing and additionally, those who were interviewed. The Review Team is grateful to the many organisations who took time to offer their views.

1.9 The Review Team also worked closely with the leadership and staff of the GLAs themselves as well as DfT colleagues in the GLA policy and sponsorship roles and is grateful for the time given to support the Review process given the many pressures on their time.

Overview of the General Lighthouse Authorities (GLAs)

1.10 NLB and TH deliver and oversee the provision of Aids to Navigation (AtoN), for example lighthouses, across the UK to assist the safe passage of a huge variety of vessels through some of the busiest sea-lanes in the world. Together they fulfil the UK's obligations under the 'International Convention for the Safety of Life at Sea' (SOLAS) Convention 1974, in line with the standards set internationally. The powers and responsibilities of the GLAs operating within the UK are set out in the Merchant Shipping Act 1995 ("the 1995 Act").

1.11 To meet their obligations, the GLAs provide and maintain all aids to navigation in coastal waters, including lighthouses, beacons, buoys, radio aids and electronic marks for modern navigation systems. Their responsibilities include the annual inspection and auditing of all AtoN provided by local port and harbour authorities as well as those provided on offshore structures such as wind farms. Both GLAs are responsible for marking, and dispersing wrecks which are a danger to navigation.

1.12 Recognising that there is reserve capacity within some of their assets (necessary to be able to respond to an emergency), the GLAs are permitted to deliver commercial contracts to use some of that reserve capacity providing that this work does not detract from delivering their core statutory functions. The income directly offsets their planned expenditure. There is a tri-GLA asset sharing agreement to ensure that mutual support is provided should an emergency response be needed during a commercial contract. All contracts include a clause that allows the GLAs to break off and carry out statutory duties if necessary.

1.13 The relationship between the Department and the GLAs is governed by a Framework Document⁴ which sets out the roles and responsibilities of all parties on areas such as finance, governance and performance.

NLB

1.14 The Commissioners of Northern Lights (known as NLB) provide AtoN for Scotland and the Isle of Man and were established by an Act of Parliament in 1786.

1.15 The organisation is formally governed by the Board of Commissioners which consists of a number of ex-officio posts⁵ including the Lord Advocate and Solicitor General for Scotland, all six Sheriffs Principal and a number of civic representatives. There are also six paid positions filled by co-opted Commissioners which are not ex-officio posts but advertised and filled through an open competition which is subsequently agreed by the whole Board. One of these is appointed and another is nominated by the Secretary of State. All Commissioners, whether co-opted or ex officio, act as Non- Executive Directors (NEDs). The full Board meets three times a year.

1.16 In practice, most of the management of NLB is delegated to the Managing Board, although the Board of Commissioners remains the ultimate decision making group. The Managing Board consists of seven Commissioners (five of whom are co-opted), the Chief Executive and three Executive Directors, a total of eleven members. This board meets six times a year. There are two Committees that sit beneath the Managing Board (Health & Safety and Navigation) which, together with the Nomination, Remuneration and Audit & Risk Committees manage delivery of the detailed work.

1.17 NLB had a total staff count of 185.7 FTE equivalent and an annual expenditure of £29.3 million in 2012/13.

TH

1.18 Trinity House Lighthouse Service (a given title) provides AtoN for England, Wales, the Channel Islands and Gibraltar. It is operated as a distinct organisation, both financially and structurally, within the umbrella of the Corporation of Trinity House, a registered charity, which itself was established by Royal Charter in 1514.

1.19 Similar to NLB, there is a two tier governance system. The Court of Trinity House is responsible for and oversees all of Trinity House business but in practice delegates its statutory duties to the Lighthouse Service⁶ managed by a board made up of the executive team, an Executive Chairman and three executive directors, and four non executives. Three of these posts are filled through an open competition

⁴ This document also includes CIL as a signatory and can be found at: <https://www.gov.uk/government/publications/general-lighthouse-authorities-framework-setting-out-the-relationship-with-secretary-of-state-for-transport>

⁵ The term *ex officio* describes where an individual is required to hold a board position by virtue of his or her office.

⁶ It retains the right to determine the lighthouse board Terms of Reference and also the right of appointment to the lighthouse board.

and are nominated by the Secretary of State. The fourth is an ex-officio position acting as a representative of the Corporation. The lighthouse board meets eight times a year.

- 1.20** TH had a total staff count of 308.7 FTE and an annual expenditure of £39 million in 2012/13.

Joint Strategic Board

- 1.21** A key recommendation from the 2010 Atkins report (see page 14) was to establish a new Joint Strategic Board (JSB) to facilitate joint working and coordination and sharing best practice between all three GLAs (including CIL). The JSB does not have decision making powers; it takes forward discussions and commissions work on tri-GLA ideas or issues. It meets three times a year and is comprised of three members per GLA, the CEO, Chair and one other NED (Executive Chairman and two NEDs in the case of TH). The Board is chaired by a further NED from one of the GLAs.

GLA Functions

- 1.22** The table below which summarises both organisations' functions, clearly illustrates how the work that each GLA carries out to deliver its functions is necessarily tailored to take account of the characteristics of the coastline they are responsible for. For example, the water around NLB's coastline tends to be deep so that in practice, they spend little or no time or resource on marking wrecks. For TH however, with certain very busy stretches of coastline having very shallow water and a mobile seabed, the marking of wrecks and new dangers is a significant activity.

Table 1.1 Summary of GLA's activities with associated drivers and resources, 2013/14

Function	Driver	Key Partners	Customers	NLB		TH	
				Share of staff time (%)	Approx. Cost ⁷ (£000) exc income	Share of staff time (%)	Approx. Cost* (£000) exc income
1 Provision of AtoN in coastal waters	Statutory (MSA, SOLAS)	Tri-GLA cooperation as required	All mariners in UK waters	92.5	14,260	76	20,524
2 Marking and Dispersal of Wrecks	Statutory (MSA and Wreck Removal Convention)	SOSRep (MCA)	All mariners in UK waters	Nil	Nil	8	2,160
3 Local Lights inspection	Statutory (MSA)	All mariners, DfT, other GLAs, other marine bodies, Harbour Authorities	Local Harbour and Port authorities; offshore energy companies	2	300	7	1,890
4 Advice on provision of AtoN for marine developments	Statutory Consultee to Marine Scotland, Natural Resources Wales (NRW) and Marine Management Organisation (MMO)	Marine Scotland, NRW, MMO	Applicants to Scottish Government, Welsh Assembly and MMO for marine licences	1	150	5	1,352

⁷ The figures provided for both NLB and TH include operating costs only and exclude costs such as pension costs, loan repayments and depreciation

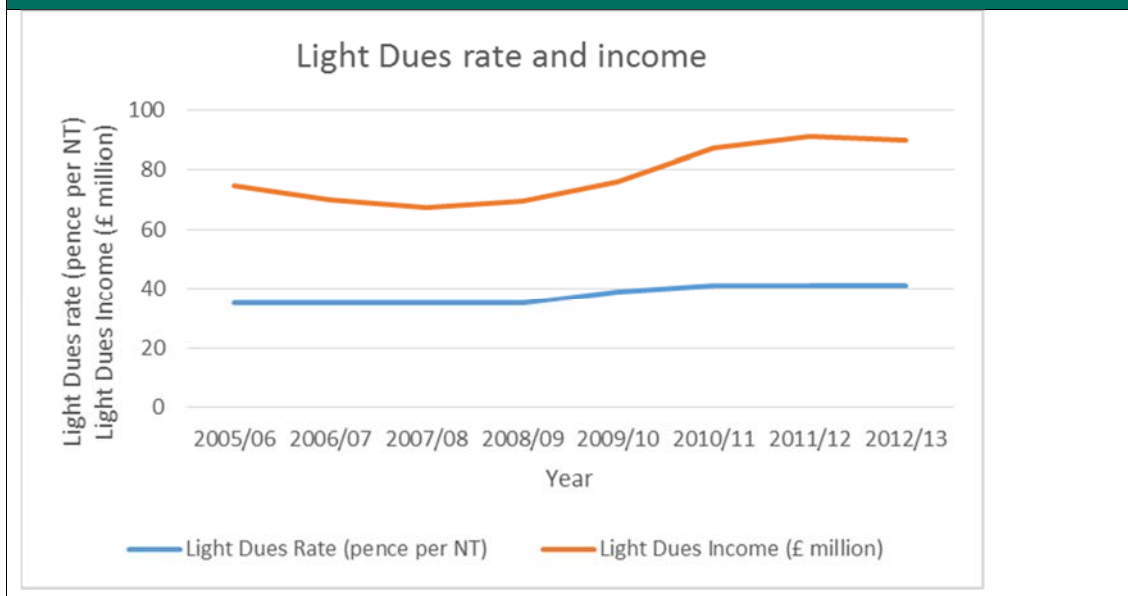
5 Commercial work	Policy/financial	Other GLAs, suppliers	Commercial customers for example Marine Scotland; BGS; MoD; Hebridean Cruises, Local harbour and port authorities	4	600	2	540
6 Participation in international fora	Policy	IALA, IMO, other States	Shipping industry through improved international safety	0.5	30	1	270
7 Collection of Light Dues (This is carried out by TH on behalf of all three GLAs and is funded directly from the GLF)	Statutory, Financial MSA 1995	Mariners, ICS, DfT, Other GLAs, LAC, Revenue Commissioners (RoI), Revenue & Customs (IoM), Suppliers	DfT, Other GLAs,	N/A	N/A	1	758

GLA Funding

- 1.23** The statutory functions of the GLAs, as provided for in the 1995 Act, are financed through the General Lighthouse Fund (GLF), a ring-fenced fund administered by the Secretary of State. This is funded principally through Light Dues, a levy on commercial (and large leisure) vessels using UK and Irish ports and charged on ships over twenty tons in weight according to their net registered tonnage. There is some other income from the GLAs' commercial activity which is paid into the GLF, but no general UK taxation funding is contributed directly to the GLF.
- 1.24** Light dues rates are reviewed annually by the Department in consultation with the shipping industry and the GLAs. Operational efficiencies through the GLAs adopting new technology and the use of solar power, have contributed to a recent reduction in Light Dues. From 1 April 2014, in the UK they are set at 40p per net registered ton, subject to a tonnage and voyage cap.
- 1.25** The Secretary of State for Transport is statutorily responsible for the management of the GLF and the laying of its accounts before Parliament. Each GLA therefore submits its annual accounts to the DfT to be consolidated into the GLF accounts which are then laid before Parliament in accordance with the 1995 Act.
- 1.26** The following chart shows the historical light dues rates per net registered ton and the light dues income (net receipts) since 2005/06.

Figure 1.1 Light dues rate and income since 2005/ 06 in the UK

Source: GLAs (Light Dues rate), GLF Parliamentary accounts (Light Dues income)



Designation of the General Lighthouse Authorities

- 1.27** Following a review in 2011, the UK's Office for National Statistics announced its decision to classify the General Lighthouse Authorities as "central government bodies" and the General Lighthouse Fund as a non-market body in the central government sector for National Accounts purposes. The principle reason for this decision was that ONS determined that light dues have the characteristics of a tax and bodies that are funded by taxation are by definition "central government bodies". As a result of the change in classification, in March 2013 the General Lighthouse Authorities were designated for the first time to the Department for Transport for the purpose of the Department's supply estimates and resource accounts. The designation came into effect from 2013/14.
- 1.28** These changes have not changed the executive independence of the GLAs or the division of responsibilities between the Departmental Accounting Officer and GLA Accounting Officers. The GLAs continue to be separate corporate entities with statutory responsibilities under the 1995 Act, as amended. The GLF will continue to prepare its own accounts, and present them to Parliament.
- 1.29** This reclassification of the GLAs has implications for DfT reporting requirements and is looked at in more detail in Chapter 3.

Annual business planning

- 1.30** Every autumn, NLB and TH both produce a corporate plan which sets out a detailed budget for the next financial year and a strategic and financial forecast for the four subsequent years. This is a five-year rolling plan. The plans are reviewed and endorsed by the NLB's Board of Commissioners and the Trinity House Lighthouse Board respectively, the tri-GLA JSB and are then agreed with DfT. The Lights Advisory Committee, representing the shipping and ports industries, also has an opportunity to comment on the plans prior to their approval.
- 1.31** The corporate plans also includes:
- Review of the previous year's performance;
 - Description of targets and KPIs for monitoring future performance;
 - The GLA's future strategic aims;
 - Plan for making efficiency savings;
 - Financial projections and forecasts of staff numbers; and,
 - Major risks and associated mitigating actions.

Historic expenditure

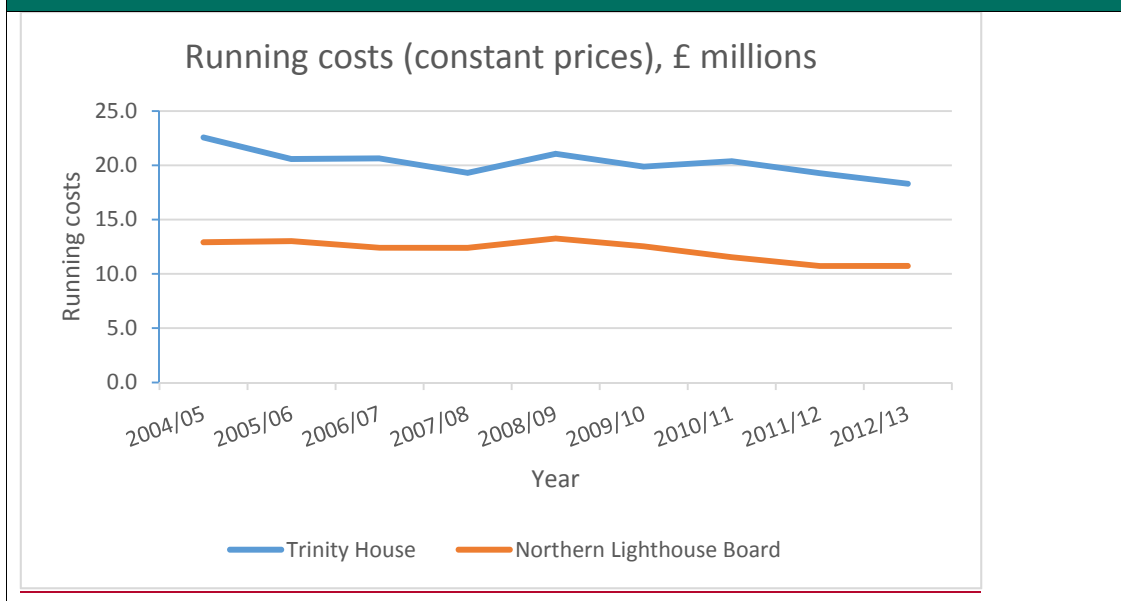
- 1.32** GLA costs have decreased significantly in real terms over the past thirty years, mostly as a result of major reductions in staff numbers in itself made possible by automation of lighthouses, improvements in solar power technology and LED lights, rationalisation of AtoN estate and vessels, and the replacement of older assets thereby reducing maintenance requirements.

1.33 Beyond this, since 2004/05, reflecting the broader government drive to realise efficiencies and cut costs, both NLB and TH have cut costs in real terms by 16.8% and 18.9% respectively, as shown in the table below.

1.34 In 2010, each GLA was set a 5 year cost reduction target to achieve further real term reductions in annual running costs, through the use of a RPI-X% formula. The level of 'X' was individually set for each GLA through negotiation between the GLA and DfT, to reflect the different starting points and therefore scope for each GLA to achieve cost reductions.

Figure 1.2 NLB and TH's running costs (constant prices) since 2004/05

Source: GLA Annual Accounts



Previous Reviews

1.35 The team took account of existing information in order to keep the scale of the review proportionate. This included looking at published documents and data, internal audit reports and plans, and other reviews, of which the most relevant was the Atkins report, summarised below⁸.

Assessment of the Provision of Marine Aids to Navigation around the United Kingdom & Ireland, Atkins

The focus of this review in 2009/10, was to assess if the GLAs 'continued to provide a reliable, efficient and cost effective AtoN service for the benefit and safety of all mariners'. The main areas of the review included:

- All activities associated with the specification and provision of AtoN including operations;

⁸ <https://www.nlb.org.uk/JointPolicy/Atkins-Report/Main/>

- Governance within and across the GLAs and if those structures brought about efficiencies and the case for other delivery models to deliver GLA functions ;
- The system of Light Dues and management of the GLF.

The review concluded that the case for retaining the existing GLA structures was robust. However it set out fifty two recommendations or areas for follow up by the Government and the GLAs.

We therefore assessed if the industry and technological circumstances in which the Atkins review was conducted had changed sufficiently so as to invalidate its analysis.

The key areas for this assessment included the wider economic circumstances, the functions of the individual GLAs and their relevance, the nature of the GLA operations, the structure of the shipping industry, the uptake and reliability of new electronic navigation technologies and the GLA/DfT relationship.

This review has found that these factors have not significantly changed since the Atkins report was published, with the exception that since 2009/10, the GLAs have been cutting costs, making operational efficiencies and have targets that would ensure their efficient functioning in the near future. This review has taken account of changes that have taken place since 2009/10.

2. Functions and Form

2.1 This section of the report:

- Looks at the functions of each GLA and whether it is justified to continue to group these functions within one body.
- Considers alternative delivery forms against the current NDPB model assessing the potential costs and benefits of each before applying the Government's three tests⁹ on the NDPB option; and,
- Makes a recommendation on the ongoing need and most appropriate delivery model for delivering these functions.

Grouping the functions of the NLB and TH

2.2 The functions of NLB and TH were outlined in the previous section of this report. In summary the GLA's main functions are as follows:

- 1 The provision of AtoN in UK waters;
- 2 The marking and dispersal where necessary of wrecks
- 3 Oversight of AtoN provided by local ports and harbour authorities and offshore structures;
- 4 To provide advice on the provision of AtoN for marine developments;
- 5 To make use of reserve capacity through commercial work
- 6 Participation in international standard setting discussions in IALA (see below)
- 7 Collection of Light Dues to fund marine AtoN provision in the UK

2.3 The first four functions are statutory requirements which enable the UK to meet its international legal obligations. Delivery of all these functions makes use of the same infrastructure and expertise; the capacity to make an informed assessment of the risk, specifying an AtoN solution to adequately mitigate that risk and the equipment and people needed to install, maintain and inspect that requirement. Given this overlap of expertise and infrastructure, it makes best use of those resources to group, as a minimum, these core activities together.

2.4 Failure to meet these obligations in national and international law would have reputational damage and hinder delivery of the Department's stated priority of "maintaining high standards of safety and security for

⁹ The "three tests" are: is this a technical function (which needs external expertise to deliver); is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions); or is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity.

passengers and freight”.¹⁰ The review therefore concludes that this would be an unacceptable option for the Government.

- 2.5 Function 5, whilst not a statutory obligation, continues on the theme of making best use of existing assets by generating income from reserve capacity (including staff expertise) through commercial contracts.
- 2.6 Function 6 describes NLB and TH’s involvement in international standards negotiations in the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA), based in Paris. IALA is the technical association charged with sharing best practice and setting international standards. In practice, one GLA leads on an area for discussion on behalf of all three and will seek to agree a coordinated GLA position on issues before they are discussed at IALA.
- 2.7 The IALA Constitution requires that in order to qualify for full membership of IALA, the organisation must be legally responsible for the provision, maintenance or operation of AtoN within a country. Therefore the organisations representing the UK at IALA discussions must be the AtoN providers in law.
- 2.8 The final function is a statutory obligation placed on the GLAs to bring in income to fund functions 1-4. Therefore, whilst the GLAs continue to deliver those core functions and the policy remains to fund those activities through a levy charged on the shipping industry, a mechanism for collecting those funds is required i.e. through function 7.
- 2.9 **Given the above reasoning, it seems reasonable to conclude that the seven functions collectively carried out by the GLAs should i) continue to be delivered and ii) not be separated from each other.**

Options for the form of the GLAs

- 2.10 This section considers whether the NLB and TH’s status as NDPBs is appropriate, or whether the functions they deliver could be better delivered by alternative delivery models.
- 2.11 There are several options which could be considered for delivering the GLA functions. Table 1.2 below sets out different possibilities for providing those functions, a high level assessment of their viability and if they are shortlisted for more detailed analysis. The shortlisted options are evaluated drawing on NAO guidance¹¹.
- 2.12 The analysis also does not consider what impact these options might have on how CIL operates and what might need to be put in place in order to ensure continuity of provision of AtoN across UK and Irish waters as a whole. It also does not consider the implications for the Isle of Man, Channel Islands and Gibraltar. All of these factors would need careful thought to ensure appropriate arrangements or agreements were put in place.

¹⁰ <https://www.gov.uk/government/organisations/department-for-transport/about#what-we-do>

¹¹ NAO (2011), Assessing business cases for changes to arm’s length bodies, National Audit Office memorandum for the Public Administration Select Committee.

Table 2.1 Possible options for the provision of GLA functions

Option Description	High level consideration	Shortlist?
1. Stop delivering the function	<ul style="list-style-type: none"> • It is generally accepted that the deployment of on-board GPS technology is not consistent enough throughout all sectors to rely purely on electronic navigation without physical AtoN, particularly where these electronic systems are vulnerable to deliberate or natural failures. • All maintenance of existing infrastructure would stop and the Government would not be fulfilling its international obligations under SOLAS. • Significant risk of an accident arising from the lack of AtoN provision resulting in loss of life, disruption to commercial shipping and negative environmental impacts. • There was no support for abolishing this function from any stakeholders. 	N
2. Bring function inside Government Department	<ul style="list-style-type: none"> • This is a technical function that Government doesn't currently have the expertise to deliver. • Government department not structured and organised to deliver an operational function efficiently. Risk that delivery of the service could become more bureaucratic and potentially more costly. • Inconsistent with Government policy to devolve specialist delivery functions away from central Government. 	N
3. Transfer function to the MCA (an existing DfT executive agency)	<ul style="list-style-type: none"> • This option would bring many of the functions that improve safety at sea within one organisation. • There would be some resource efficiencies in the management and back office functions. • Risk that by bringing the function within a significantly larger organisation, the delivery is less focussed and efficient. • Loss of NLB and TH brand within the maritime sector. Could lead to loss of staff, corporate knowledge and international influence. • Is very likely to require primary legislation. 	Y
4. Merge organisations with each other	<ul style="list-style-type: none"> • This could consolidate expertise and allow for greater operational standardisation. • It would realise some resource efficiencies in the management and back office functions. • Loss of NLB and TH brand within the maritime sector. Could lead to loss of staff, corporate knowledge and international influence. • Could require legislative changes 	Y

5. Transfer function to large port authorities (between 5-10)	<ul style="list-style-type: none"> ● Port/harbour authorities are already responsible for the provision of AtoN to ensure safety passage into a port or harbour. This option would extend these responsibilities to include coastal waters for a section of the UK coast. ● Unequal distribution of income across the UK could require a potentially complex charging regime. ● Risk that local ability to deliver is inconsistent or inefficient as evidenced by situation that some ports authorities contract the GLAs to deliver their local lights. ● Loss of national picture/ inconsistent approach between local authorities to provision of coastal AtoN. ● An audit and inspection function would need to be retained at a national level. 	N
6. Contract function outside Government	<ul style="list-style-type: none"> ● This would involve contracting out the operations function, i.e. the installation, maintenance and monitoring service (following a similar arrangement to AtoN provision applied in Australia (see section below)). ● A specification, audit and inspection function would need to be retained at a national level. ● Would need to consider carefully if this would encourage further efficiencies by promoting competition or create a monopoly. ● Loss of reputation and organisational identity. Could lead to loss of staff, corporate knowledge and international influence. ● Could require primary legislation. 	Y
7. Remove all Government management and oversight	<ul style="list-style-type: none"> ● This would retain TH and NLB as GLAs but transfer management to their users, the shipping industry via the Lights Advisory Committee. ● Risk that the industry may downgrade risks or AtoN requirements in order to cut costs. This would expose the UK to risks of non-compliance with SOLAS and significant marine accidents. ● This option might make some small efficiencies by cutting down on bureaucracy and the Government's sponsorship role but it seems that the likely changes to legislation and the risks outweigh the potentially small gains. 	N
8. Maintain status quo	<ul style="list-style-type: none"> ● Current arrangements include a degree of duplication between functions including back office and administrative support, two sets of Directors and two head offices. ● These arrangements allow a more flexible, regional approach to marine AtoN provision within the UK. ● Retain corporate knowledge and expertise. 	Y

Options Analysis

2.13 Following the NAO memorandum on “Assessing business cases for changes to arm’s length bodies”, the four shortlisted options have been assessed below against the following criteria:

- 1 *Effectiveness of function delivery*: Demonstrating clarity over the proposed change, setting out how it is designed to improve the effectiveness of the GLAs.
- 2 *Independence from Government*: Clarifying how each option affects public accountability to Ministers relative to the status quo.
- 3 *Likely costs and benefits*: Identifying the likely costs and benefits against each option relative to the status quo. The description of this baseline is set out in the status quo section.

Option 3: Transfer function to the Maritime and Coastguard Agency (MCA)

Effectiveness of function delivery:

- 2.14** There is a strong synergy of purpose, that of improving the safety at sea, between the GLAs and MCA and it seems rational theoretically to bring the GLAs functions within the remit of the MCA. Although the specialist expertise required by the GLAs and MCA is different, in some areas, transferring the function might result in a more joined up delivery, for example when providing expert advice on offshore developments or in coordinating an emergency response to a wreck.
- 2.15** Government policy and delivery on AtoN would be more closely located, reducing the risk of disconnects.
- 2.16** One interviewee felt that staff working in both GLAs have a strong ‘investment in the cause’ and high employer loyalty (as shown in the latest TH staff survey and anecdotal evidence from NLB) and that a consequence of moving away from the status quo could lead to a loss in staff morale, lower levels of staff loyalty and ultimately higher staff turnover, all of which lead to a less productive and efficient environment. It would take time for GLA staff to become culturally integrated into the MCA.

Independence from Government:

- 2.17** As an Executive Agency, the MCA is directly within Ministerial control and the provision of AtoN would no longer be delivered by an arm’s length body.
- 2.18** This option would move a function from an organisation that operates predominantly in Scotland to a body whose remit covers the whole of the UK.

Likely benefits, costs and risks:

- 2.19** Compared to the baseline scenario as described above, this option is likely to result in the following additional benefits, costs and risks:

Benefits

- 2.20** The primary function of the MCA is regulating the maritime industry in order to ensure safety at sea. This move could provide benefits in the form of economies of

scale leading to improved operational and cost efficiencies, as well as centralised management and control.

2.21 In particular, the efficiencies would be:

- 1 Reduction in senior management staff number and pay: This option could potentially lead to a reduction in senior management staff and Non-Executive Directors. It is possible that there would be a single board with 1 CEO and 5 Directors across the merged MCA/ GLA organisation. From the table below, it can be seen that doing this could result in a cost saving of up to £485,000 per annum in remuneration.

Table 2.1 Salaries* of Senior Management in the MCA and the GLAs
***Average salary as on 31/03/2012, not including Bonus or Benefits.**
Source: Annual Accounts 2013, www.data.gov.uk. MCA salary is from Annual Accounts 2011-12

Role	MCA Average Salary p.a.(£)	NLB Average Salary p.a.(£)	TH Average Salary p.a.(£)	Merged organisation (MCA & 2 GLAs) Average Salary p.a.(£)
Chief Executive Officer	117,500	87,500	112,500 (includes Chair cost)	117,500
Director 1	107,500	77,500	77,500	107,500
Director 2	82,500	77,500	92,500	92,500
Director 3	77,500	77,500	92,500	92,500
New Director 4				92,500
New Director 5				92,500
Sum total	385,000	320,000	375,000	595,000
Grand Total	1,080,000			595,000

- 2 Reduction in support staff: This option could also result in consolidation of support functions across the MCA and the GLAs. Support functions, as defined in the Atkins report, include Communications, Finance, Information Technology, Human Resources, Knowledge and Information Management and Procurement. The MCA are due to migrate onto the wider DfT's Shared Services system in summer 2014 which will bring about some standardisation and streamlining of their support services. Current staff figures for 2012/13 in those support services listed above are for Trinity House are 35¹² and NLB at 25.4¹³; a total of 60.4 FTE

¹² FTE equivalent staff for the Financial Year 2012/13. Source: Trinity House

¹³ FTE equivalent staff for the Financial Year 2012/13. Source: NLB

between them. If a 30% saving in staff numbers is assumed as a result of the merger, this would be reduced by approximately 20 staff to 40.4 FTE.

- 3 Estates and other asset rationalisation: The option would reduce the need for having fully operational head offices for each GLA as well as the MCA. Some of the current offices could potentially be closed, sublet or replaced with smaller ones. This would reduce the maintenance and overheads costs of the current buildings and also potentially result in income from the sale of the fixed assets. The Tower Hill head office used by the TH Lighthouse Service is owned by the Corporation so the GLF would receive no funds should it be sold. However, the Lighthouse Service's proportion of the annual overhead expenditure on the building in 2012/13 was £274,534.80 (this is offset by the income it receives on providing the Corporation with support service resource). Similarly, the annual maintenance and overheads expenditure on the NLB head office building in Edinburgh was £150,740 in 2012/13 and the building was valued in 2013 at £4.7million. It is beyond the scope of this review to assess the staffing and estates needs of this option but clearly, a proportion of these costs could be saved.

Transitional costs:

- 2.22** Changes to primary legislation could be required in moving the GLAs into MCA, which would require DfT commitment to resource the necessary Bill team, legal and policy support from with DfT and the GLAs. It would also need to be considered high enough priority to get a slot in the Parliamentary timetable. It is likely that there would also be a need for secondary legislation once the Bill had received Royal Assent.
- 2.23** The option would also result in one-off costs of the transfer or disposal of the assets of the current GLAs, including removal costs, and lease exit payments. Other transitional costs would be related to policy development, MCA Headquarters reconfiguration or building work, transfer, IT costs, HR and senior management planning time, relocation or redundancy of staff involved. Costs related to communication and rebranding would also need to be incurred.
- 2.24** As an indication, the transitional costs to the recent transfer of Aviation Security Regulation to the Civil Aviation Authority, were estimated at £2.1m¹⁴ which included IT infrastructure and office remodelling but excluded the necessary CAA and DfT staff costs to deliver the project.
- 2.25** We assume that these transitional costs would accrue over 2 years for the new organisation, until the new set-up is complete and functional.

Running costs:

- 2.26** There would be non-monetised costs related to productivity losses where change is disruptive or staff morale falls. There could also be a risk of adverse immediate effects on third parties, such as reduced customer or stakeholder satisfaction, as a result of the change, although, this could potentially be reversed in the long term. Restructuring of this kind would also risk a loss of senior experience and local knowledge and understanding.

¹⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/86153/security-functions-impact-assessment.pdf

Risks/ Uncertainties:

- 2.27** There are significant risks associated with the above assumptions about benefits. For instance, whilst we mention the consolidation of support functions as a benefit from this option, the Atkins report highlighted that centralisation of support functions may not realise large scale benefits since the GLAs do not have large workforces, high volume of standardised activities or overlapping of territories, to warrant it. Also, whilst there would be a financial benefit in operating a single Board, the cost savings resulting from this would be partially eroded by increased travel and subsistence costs of senior management covering a larger geographical area, and need to retain a tier of middle management on a regional basis across the UK.
- 2.28** Some stakeholders held the view that the MCA already has a wide ranging regulatory remit and is undergoing significant change and therefore wondered if the MCA would have the capacity at this point in time, to take on an additional function and the staff to deliver it.
- 2.29** There is also the risk that by bringing this function within a much larger organisation, the function would become less focussed and efficient with a consequential negative impact on marine safety.
- 2.30** **On the basis of the above additional costs and the risks in securing the perceived benefits, we rule out the option of moving the GLAs into the MCA.**

Options		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Option 3: Bring the GLAs into the MCA	Costs										
	Transitional costs	<ul style="list-style-type: none"> • Possible legislative costs • Staff relocation/ redundancy/ transfer costs • HR costs • Transfer/ disposal of assets 									
	Running costs	<ul style="list-style-type: none"> • Productivity losses • Loss of continuity and know ledge 									
	Benefits										
	Transitional benefits	<ul style="list-style-type: none"> • Income from the sale of surplus office buildings 									
	Running benefits	<ul style="list-style-type: none"> • Cost savings • Reduction in senior management staff • Reduction in support staff • Lower overheads and maintenance costs of buildings 									
NPV= Sum[(Benefits in each year- Costs in each year) / (1+Discount factor)^t]											

Atkins conclusions on merging the GLAs

The Atkins report states that although there are obvious benefits that would arise from merging the GLAs, the costs and risks significant outweigh them. There may potentially be operational economies of scale as well as a leaner central and support function. There would also be better governance resulting from a single,

unambiguous chain of command, and a harmonised set of standards, processes and systems.

However, the creation of a single GLA structure would likely require primary legislation which would impose costs. It would result in practical difficulties regarding the transfer or disposal of the assets and the transfer, relocation or redundancy of staff. This would indicate significant transitional and start-up costs for the new organisation.

Benefits linked to centralisation may be limited since the GLAs do not have large workforces, high volume of standardised activities or overlapping of territories. Three or four operational bases across the UK would still be required, requiring local back office staff to serve these on a regional basis.

Whilst there would be a financial benefit in operating a single GLA Board, the cost savings resulting from this would be partially eroded by increased travel and subsistence costs of senior management covering a larger geographical area, and the need to retain a tier of middle management on a regional basis in England and Scotland. There is also a risk of loss of senior experience and local knowledge.

In conclusion, a merger is likely to disrupt service delivery and result in more losses than gains.

We judge that these arguments still remain valid, and there has been no significant enough change in the past four years to invalidate them.

Option 4: Merge organisations with each other

2.31 This option was looked at in some detail in the Atkins report and as such our consideration of the relative scale of costs and benefits relies heavily on this. We have therefore set out below our assessment of the ongoing validity of that analysis, given that it was based on assumptions and forecasts from nearly four years ago.

Effectiveness of function delivery:

2.32 Aside from the short term impact on delivery arising from a major organisational change, there could be a longer term impact as people adjust to the cultural changes. This could be exacerbated by the loss of the unique and strong identity of one or both organisations leading to a drop in staff morale and affecting the newly merged organisation's ability to attract highest performing staff.

2.33 Merging the GLAs into one organisation could allow for greater standardisation of operations but might also lead to a loss of local and regional knowledge and the flexibility in delivering local solutions which might lead to a reduction in how well the function is delivered across the UK.

Independence from Government:

2.34 This option would not change the level of independence from central Government experienced by the GLAs. This option results in the loss of an organisation that operates predominantly in Scotland to form a UK wide arm's length body.

Likely costs, benefits and risks:

2.35 Compared to the baseline scenario, this option is likely to result in the following additional benefits and costs:

Benefits

2.36 The main benefit of this option would be increased effectiveness of policy and service delivery as a result of a more coordinated/'joined-up' approach between the two GLAs; this is currently delivered through the tri-GLA Joint Strategic Board.

2.37 It would result in consolidation of expertise and resources, which would lead to operational and cost efficiencies. Also it could result in a more consistent approach to AtoN around the UK by centralising operations, as well as a greater clarity about core priorities and organisational targets through centralised governance. These benefits would be gained whilst the newly merged organisation maintained its functional independence from other bodies such as the MCA.

2.38 These savings could result from:

- 1 Reduction in senior management staff: This option would potentially lead to a consolidation of staff particularly at senior management level and NEDs. For instance, by having 1 CEO and 3 Executive Directors instead of 2 CEOs and 6 EDs, as in the current structure, there could be a potential saving of £305,000 annually in remuneration.

Table 2.2 Salaries* of Senior Management in the GLAs			
*Average salary as on 31/03/2012 (£), not including Bonus or Benefits.			
Source: Annual Accounts 2013, www.data.gov.uk.			
Role	NLB Average Salary p.a. (£)	TH Average Salary p.a. (£)	Merged organisation (2 GLAs) Average Salary p.a. (£)
CEO/ Executive Chairman	87,500	112,500 (includes Chair cost)	112,500
Director 1	77,500	77,500	92,500
Director 2	77,500	92,500	92,500
Director 3	77,500	92,500	92,500
Total	320,000	375,000	390,000
Grand Total	695,000		390,000

- 2 Reduction in support staff: The current figures for the GLAs show that the number of support staff employed by Trinity House is 35¹⁵ and by NLB is 25.4.¹⁶ Therefore, consolidation of support functions could potentially save 12.1 FTE staff annually, assuming an overall cut of 20% in the staff (this saving is lower

¹⁵ FTE equivalent staff for the Financial Year 2012/13. Source: Trinity House

¹⁶ FTE equivalent staff for the Financial Year 2012/13. Source: NLB

than the MCA merger option because the same economies of scale is unlikely to be achieved).

- 3 **Estates and other asset rationalisation**: The option would reduce the need for having two fully operational head offices and one could potentially be sublet or sold. This would reduce the total rent, maintenance and overheads costs. The Tower Hill head office used by the TH Lighthouse Service is owned by the Corporation so the GLF would receive no funds should it be sold. However, the Lighthouse Service's proportion of the annual overhead expenditure on the building in 2012/13 was £274,534.80 (this is offset by the income it receives on providing the Corporation with support service resource). Similarly, the annual maintenance and overheads expenditure on the NLB head office building in Edinburgh was £150,740 in 2012/13 and the building was valued in 2013 at £4.7 million. It is beyond the scope of this review to assess the resulting estates needs of this option but clearly, a proportion of these costs could be saved.

Transitional costs:

- 2.39** As set out in other options, one-off costs related to changes to primary legislation might be incurred in this case. The option would also result in costs of the transfer or disposal of the assets of the current GLAs, costs related to transfer, relocation or redundancies of staff involved, and HR costs related to these staff rearrangements. In addition, there would be costs related to communication and rebranding.

Running costs:

- 2.40** This option would potentially result in non-monetised costs related to loss of senior experience and local knowledge, as well as costs related to productivity losses as a result of fall in staff morale.

Risks:

- 2.41** There are risks associated with some of our assumptions about the benefits above. As the Atkins report highlighted (and summarised in the box above), centralisation of support functions may not be warranted by the current structure and size of the GLAs, since they do not have large workforces, high volume of standardised activities or overlapping of territories. Also there would still be a need for operational bases and a need for managers and local back office staff to serve these on a regional basis.
- 2.42** **Therefore, on the basis of the above mentioned costs and uncertainties related to the benefits, we rule out this option as well.**

Options		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Option 4: Merging the GLAs	Costs										
	Transitional costs	<ul style="list-style-type: none"> Possible legislative costs Staff relocation/ redundancy/ transfer costs HR costs Transfer/ disposal of assets 									
	Running costs	<ul style="list-style-type: none"> Productivity losses Loss of continuity and know ledge 									
	Benefits										
	Transitional benefits	<ul style="list-style-type: none"> Income from the sale of surplus office buildings 	•	•	•	•	•	•	•	•	•
	Running benefits	<ul style="list-style-type: none"> Cost savings Reduction in senior management staff Reduction in support staff Lower overheads and maintenance costs of buildings Better governance Centralised operations 									
NPV= Sum[(Benefits in each year- Costs in each year) / (1+Discount factor)^t]											

Option 6: Move out of Central Government – Contracting out

2.43 Within this option, there are a number of sub-options to consider including whether this function could be delivered by a mutual, Community Interest Company or social enterprise and if the function could be delivered under a contract.

2.44 Typically the type of function that is delivered

efficiently by an alternatively structured organisation such as a mutual or social enterprise, is one where there is a natural community with a shared interest in the service and importantly where it is a service delivered face to face by people to people. This doesn't fit well with the service provided by the GLAs; its community of directly interested parties is relatively narrow and the service is not delivered face to face by staff. In consultation with Cabinet Office, the review therefore discounted exploring these options further.

2.45 However, it does seem relevant to consider if the function could be contracted out to a third party, whether voluntary or private sector. This is the approach that has been taken for AtoN provision in Australia by the Australian Maritime Safety Authority (AMSA) (see summary box below).

Case Study: Australia

In 2001, the Australian Maritime Safety Authority (AMSA) outsourced its Aids to Navigation (AtoN) maintenance services of its marine AtoN network. The driver for this decision was to allow AMSA's to focus on its core business as a safety and regulatory agency, specifically on innovation, continuous improvement and safety of the AtoN maintenance service.

AMSA identified the following benefits, costs and risks associated with this process:

Benefits

- The ability to accurately forecast its medium term costs and the income required from the levy since the contract is a fixed price. This provides AMSA and the shipping industry with a useful indication of future costs.
- Network standardisation and consistent application of best practice in methods, technology, etc. that might have happened more slowly in their previous regional operations model.
- Provision of value for money through competitive Tendering processes, with the most recent one completed in January 2014.
- AMSA staff associated with AtoN provision reduced to 17 from 113FTE.

Costs

- AMSA has recently let the third AtoN maintenance contract for a further 10 year period to start in July 2014. This round of procurement took 1.5 years and cost approximately AUS\$1.5m (including market testing).
- The market testing informed an AMSA review of the technical specifications and draft contract, reducing supplier risk and hence potential tenderers' pricing by, e.g. lowering its major maintenance threshold.

Risks/Issues

- At the beginning of the contracting process, AMSA had to deal with significant loss of expertise and corporate knowledge which they have since had to build back up.
- Insufficient competition in the private sector for the first two contracts to guarantee value for money.

Evidence on cost savings resulting directly from outsourcing in Australia is limited. The per ton levy paid by the industry for AtoN provision provides a partial indication; the current rate is the same as in 2003/04 (this amounts to a reduction when taking inflation into account), similar to UK Light Dues rates over the same time period.

2.46 If this option were pursued, there would need to be some detailed consideration about which functions could be contracted out. For the purposes of this analysis, we have assumed that the legal responsibility would rest with the Secretary of State but the functions that could be contracted out include:

- the provision and maintenance of AtoN;
- the marking of wrecks or dangers;
- Audit and inspection of local lights.

2.47 The residual GLA and other new functions would be brought within central Government (within a Department or Executive Agency) including:

- Specifying the AtoN requirements;
- Audit and inspection of contracted work;
- Contract management;
- IALA negotiations;

- Collection of Light Dues

Effectiveness of function delivery:

2.48 All service deliverables and KPIs would be specified in the contract and contract payment would be tied to delivery against these. Initially, there might not be sufficient expertise in the private sector to maintain existing GLA delivery standards although, many of the redundant employees could be re-employed by the successful contract holder. This is what occurred in Australia when they contracted out their AtoN provision.

Independence from Government:

2.49 A private sector model would clearly be more independent of Ministers than under current arrangements, but still subject to the detailed terms of the contract. Government would be more involved in setting AtoN requirements than is currently the case. The contractor would have greater operational independence from the status quo and to an extent greater freedom on spending within the budget set as long as targets and outputs were delivered.

Likely benefits, costs and risks:

2.50 Compared to the baseline scenario as described above, this option is likely to result in the following additional benefits and costs:

Benefits

2.51 This option could result in improved policy focus and delivery due to the organisational separation of the specifier and provider roles. While the specifier or regulatory role would continue to sit with the government, the contractor would focus on providing the safety and maintenance services. Over the longer term, we would expect this to create competition in the market for provision of the services, which could result in improved efficiency of service and corresponding cost efficiencies.

2.52 Contractors would have the flexibility to pay market rates for specialist staff which would help attract and retain high performing staff.

2.53 The scale of cost savings arising from outsourcing might be limited as implied by the fact that both the Australian levy and Light Dues rates are both currently set at the same rate as in 2003/04.

Transitional costs:

2.54 Changes to primary legislation might be required, which would impose a cost in terms of policy, Bill team and legal resources and relative priority in Parliament. There would also be other one-off costs resulting from redundancies including related HR costs; costs associated with disposal of the assets of the current GLAs when they are closed down/ put up for sale and communication costs of the change.

2.55 There would also be costs associated with procurement. In the UK, this procurement would fall within scope of EU procurement rules and DfT procurement colleagues estimate that this work might take between 18 months-2 years at a cost of approximately £2m. There would be an additional cost of procurement every time the contract was retendered.

2.56 Again, we assume that these transitional costs would accrue over a period of two years.

Running costs:

2.57 There would be an ongoing cost to Government to resource the functions that it retains including contract management, strategic planning and AtoN specification. In Australia the resource devoted to delivering these equivalent functions is about seventeen staff.

2.58 This option would result in loss of continuity in providing the service as a result of the change in structure, which could affect the shipping industry and stakeholders negatively. Expertise and institutional memory would be lost during the transition as well, particularly if the existing staff were not reemployed by the contractors. The option could also lead to a reputational risk nationally and internationally, as a traditional government function, related to critical safety, is outsourced to a commercial provider.

2.59 Whilst the above are non-monetised costs, this option would also result in higher monitoring costs for the Department, since the provider role would now be contracted out to a non-government agency.

Risks

2.60 There are some significant risks associated with this option. Firstly, instead of creating competition in the market, contracting the function out to the private sector might result in a monopoly due to the high level of technical expertise and high set up costs required. In the absence of competition, value for money is at risk because suppliers can price without the risk of being under-cut by competitors. The benefits of a more efficient delivery model are then not passed through to the ship operator through a reduction in Light Dues.

2.61 The private contractors might also spend resources on political lobbying to gain monopolistic advantages, which could result in inefficiencies.

2.62 A major risk is that Government is unable to retain sufficient specialist AtoN engineering expertise to assess the contractor's performance and the value for money of their work.

2.63 Furthermore, while provision of a safety function is a public good, commercial providers might lose sight of that, since their primary objective is to maximise profits. The impact of the risk to safety arising from a compromise in quality of delivery is very significant. Using contractual breach mechanisms to deal with situations of liability for the protection of mariners and the marine environment is potentially complex and high risk which could significantly increase the costs associated with setting up the contract and subsequent contract management.

2.64 Whilst it is useful to examine Australia's outsourcing experience, their circumstances and environment are sufficiently different so as to limit the relevance of the comparison, particularly considering the differences in legal framework, organisational set up, density of marine traffic, weather and the nature of the coastline. The UK has some of the most densely used shipping lanes in the world which significantly increases the risks of an accident.

2.65 On balance, it is not clear that the scale of the potential benefits would warrant the costs and risks associated with this option. As a result, we rule out this option.

Options		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Option 6: Contract function outside government	Costs											
	Transitional costs	←		→								
		<ul style="list-style-type: none"> Possible legislative costs Staff redundancy costs HR costs related to redundancies Transfer/ disposal of assets Procurement and contract negotiation 										
	Running costs	←										
		<ul style="list-style-type: none"> Loss of continuity and knowledge Higher monitoring costs 										
	Benefits											
Transitional benefits	←		→									
	Income from the sale of some assets											
Running benefits	←											
	<ul style="list-style-type: none"> Cost efficiencies, due to process standardisation, single procurer; single back office function. Operational efficiencies; higher asset use. Flexibility in making capital investments Improved policy focus, separation of specifier and provider roles 											
NPV= Sum[(Benefits in each year- Costs in each year) / (1+Discount factor) ^t]												

Option 8: Maintain Status Quo

Effectiveness of function delivery:

2.66 Some stakeholders suggested that both NLB and TH have significant influence and standing within the industry both in the UK and internationally. This results in benefits for the UK for example influencing negotiations in IALA and realising efficiencies through investing in shared technological innovations.

Independence from Government:

2.67 A number of respondents believe that the arm’s length nature of the GLAs allow them to engage with industry and other organisations more effectively because they are seen to be objective and free from political interference. This increases trust and helps to facilitate the development of a productive relationship with the industry.

2.68 For Ministers, the arm’s length relationship provides confidence that legal obligations are fulfilled without the need for direct involvement in the delivery of this technical function.

2.69 The Framework Document was cited by both the GLAs and DfT as a useful record of the respective roles and responsibilities of all signatories.

Current costs of the GLAs:

2.70 The costs borne by the two lighthouses authorities in providing their core functions are:

- Staff pay: This includes senior management, middle management, operations staff, support services staff, and includes salaries, bonuses and benefits. At

approximately 50% of their running costs, this is the major component of the cost base of the GLAs.

- Purchase of new buildings/ equipment (capital investment)
- Maintenance of the AtoN equipment.
- Maintenance and overheads of the offices and bases.
- Rent and overheads on office buildings. TH has its Head Office in Trinity House, London and other bases in Harwich, Swansea and St. Just. NLB has its Head Office in Edinburgh, an operational base in Oban and units at Shetland, Orkney and Inverness.
- Purchase and maintenance of office equipment, software, etc.
- Financial commitments such as interest on loans, etc.

Stakeholder evidence – summary

- 2.71** The questionnaire was sent to 31 different organisations and 15 responded in writing (a response rate of 48%); see Annex A for a list of respondents. In order to gather a representative range of views from across the marine industry, where it was felt views were missing from a particular area of the industry, the review team actively met or held telephone interviews with additional organisations.
- 2.72** Some respondents that hadn't responded originally to the questionnaire suggested that by not responding, it implied that on the whole, they were happy with the GLAs' service with no strong views to argue for change. Applying this rationale, the relatively low response rate possibly illustrates a situation where the majority of stakeholders are content with current arrangements for provision of AtoN and the service delivered by NLB and TH.
- 2.73** Stakeholders who responded to this Review, gave near universal praise and support for NLB and TH across all functions. There were no arguments presented for fundamental reorganisation at this moment even from those stakeholders that pay Light Dues. Most substantive comments received focussed on suggestions as to how delivery of the functions could be improved and did not question the ongoing need for either the functions or for the GLAs to continue to deliver them.
- 2.74** The majority of views received on the effectiveness of the existing arrangements and alternative delivery models, supported continuing with the status quo. No stakeholders argued for bringing the function closer to Government and a few suggested that greater use of outsourcing could be cost effective for some activities. Although it was suggested by some respondents that the existing UK model is not how it might be designed now from scratch, the strength of having two separate GLAs was also acknowledged, facilitating local knowledge and operational flexibility.
- 2.75** Some UK wide stakeholders reported that they had better visibility of TH's work than NLB. This could be a consequence of the location of the organisation's head office; many stakeholders are based in the South East of the UK and are therefore more likely to see TH than NLB at maritime events.

2.76 A few stakeholders felt that both GLAs struck a good balance between embracing and developing new technologies whilst at the same time exercising caution so that mariners will always have recourse to a reliable system of AtoN around the UK even in the case of technology failure.

The Three Tests

2.77 Following on from the cost benefit analysis and stakeholder evidence above, the Cabinet Office guidance requires us to consider three further tests regarding the proposal to retain the AtoN function with NLB and TH as NDPBs. At least one of these tests must be passed in order for the function to be delivered by an NDPB:

- Is this a technical function (which needs external expertise to deliver)?
- Is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions)?
- Is this a function which needs to be delivered independently of ministers to establish facts and/or figures with integrity?

2.78 Our answers to these three questions are set out below:

Table 2.3 Assessment of three tests for NDPBs	
Test	Remarks
Technical function needing external expertise	<p>From the evidence we have received, including views from stakeholders, it is clear that this technical expertise, not to be found within central Government, is essential to the effective delivery of a number of NLB and TH's functions. That technical expertise is also essential for the GLAs to maintain such high credibility with its stakeholders.</p> <p>The review concludes that this test is met.</p>
Political impartiality	<p>The provision of marine AtoN is not an obviously political issue. However, the scale of potential consequences following a significant accident are substantial (including loss of life, economic, and reputational). Therefore, delivery of this function should be free from political influence or bias. This argument was put forward DfT policy and sponsorship teams as well as GLA staff.</p> <p>Additionally, the success and influence of NLB and TH internationally could be enhanced by being seen to be politically unbiased experts.</p> <p>The review concludes that this test is met.</p>

Establishment of facts and figures with integrity	The GLAs do not have a responsibility for establishing facts and figures in the way envisioned in this final test. The review concludes that this test is not met.
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Conclusions and Recommendations

- 2.79** There are a number of key points that emerge from consideration of the various options for the GLAs alongside the stakeholder feedback.
- 2.80** Whilst the provision of marine AtoN may not be not a high profile public function, it is considered essential by all to ensure maritime safety, particularly where as an island nation, about 95% of UK imports and exports go by sea.¹⁷ There was universal support from stakeholders for the continuing need for marine AtoN and for the high quality of service delivered by both GLAs. No stakeholders suggested that there was a fundamental underlying problem with the current organisation of marine AtoN provision in the UK that warrants major organisational change.
- 2.81** The Atkins report carried out an international comparison to examine if this provides an alternative model for delivery of the functions currently delivered by the GLAs. It concluded that there is a wide range of approaches to both funding and delivering the provision of AtoN and no consistent use of any one model. The UK approach to funding is broadly consistent with the ‘user pays’ principle and both GLAs have built up a wealth of experience and expertise to support the delivery of their functions.
- 2.82** There are significant obstacles that would need to be overcome to reorganise the current set up. All options could require changes to primary legislation and a lengthy and expensive planning period. To justify a reorganisation, the business case would need to be robust, with very clear, quantifiable benefits. However, given the small size of NLB and TH, both in staff and expenditure terms, and the location specific nature of their work, the scope for realising significant benefits is mainly limited to the relatively small numbers of staff within the support functions and management. The costs and staff time associated with travel could be significant enough so as to justify keeping regionally based buoy-yards and operational staff at different locations around the UK.
- 2.83** The most viable option for reorganisation, as at the time of the Atkins review, continues to be merging the two GLAs. This Review’s analysis affirms Atkins conclusion that the costs and risks associated by a merger would not be sufficiently outweighed by the benefits to justify such a move, particularly when there have been significant steps in realising efficiencies through joint working, and further areas have been identified.
- 2.84** **On the basis of the evidence set out above, this review therefore recommends that the GLAs’ functions are necessary and should continue to be delivered by two separate NDPBs. These recommendations have been agreed with the Minister for Maritime, Stephen Hammond.**

¹⁷ Focus on Ports 2006

3. Corporate Governance Assessment

- 3.1** In line with the requirements of the second stage of Triennial Reviews, as set out in the Cabinet Office Guidance, the Review has considered the control and governance arrangements in place to ensure that retained NDPBs are complying with recognised principles of good corporate governance.
- 3.2** This review has focussed on assessing if the structure and processes on governance and internal control result in well run efficient organisations. Specific concerns or ideas that were received from stakeholders have been passed directly to the GLAs or the relevant teams within DfT.
- 3.3** The detailed assessment against individual requirements is recorded in Annex C, and the findings are summarised below under the main Cabinet Office headings; Accountability, Roles and Responsibilities, Effective Financial Management, Communications and Conduct and Behaviour. At the end of this section, we consider some of the areas of the GLAs work that are funded directly from the GLF or that they work on jointly.

Accountability

- 3.4** Both GLAs are compliant with most areas of accountability.
- 3.5** One significant area of non-compliance for both organisations is that the Secretary of State does not appoint the Chair or the majority of Non-Executive Directors. Neither organisation is listed in the Public Appointments Order in Council 2013 and so are not required to adhere to the Code of Practice published by the Commissioner for Public Appointments. Both GLAs voluntarily follow the Code of Practice for all open recruitment they undertake.
- 3.6** These arrangements are not standard for an NDPB. However, the review has received no evidence that this has an adverse impact on either Board's performance so changing them would not seem justified, particularly where changes to primary legislation would be required to remove the ex-officio appointments on the NLB Board.

Transparency

- 3.7** The Corporation of Trinity House is not subject to the Freedom of Information Act (FOIA). TH's current exclusion from the FOIA is historical but seems anomalous, given that NLB is within scope and it delivers the same public function using public money. Bringing them within scope would increase their public accountability and transparency.

- 3.8** It would most likely be possible to include Trinity House within the FOIA in relation to any public functions that it carries out using section 5 of the Act. Such functions may include that of acting as a lighthouse authority and potentially exclude the rest of the Corporation's activities. In 2011, the Ministry of Justice, who lead on this policy, consulted a number of bodies, including TH, on extending the scope of the FOIA to any public functions they perform. Ministers are still continuing to consider how the FOI Act might be extended and anticipate that any further extension will be complete by spring 2015. **This report takes the view that TH's current exclusion is an anomaly and recommends that TH and the Department support any proposal to include TH within the FOIA.**
- 3.9** There are a few actions that TH could undertake now to increase its transparency in advance of a decision on the FOIA to ensure its approach is consistent with other organisations delivering public functions. **A further general recommendation therefore is for TH to review how it might increase its transparency, particularly in releasing information of public interest.** Although TH have adopted a policy to proactively release information, the review team found it relatively difficult to find information relating to the Lighthouse Service on their website. **TH have agreed to consider extending their publications and restructuring their website to ensure that information can be easily accessed.**

Roles and Responsibilities

DfT Sponsorship and Policy roles

- 3.10** The review had extensive contact with the departmental sponsorship and policy teams and there was plentiful evidence that they had regular contact with the GLAs and were well-informed on issues affecting the GLAs.
- 3.11** However, the GLAs seemed unclear of the division of responsibilities between the policy and sponsorship teams within DfT and this was reflected by the DfT teams themselves. There was also concern that the GLAs receive requests for information and data from many parts of DfT often without the sponsor team being aware of the request. **Therefore the division of work between the policy and sponsorship teams should be reviewed and communicated to the GLAs and across DfT to clarify and raise awareness of the sponsorship role. In addition, the sponsorship team should maintain a list of the regular information and data that is required from the GLAs and consider if there is scope to streamline any requests.**
- 3.12** The Framework Document sets out a requirement that it will be reviewed within a 5 year period. The Cabinet Office requirement is that framework documents are reviewed every 3 years to align with the current triennial review timetable. Given that the outcome of a triennial review could significantly change what is needed in a framework document, it seems reasonable to align the timetable of both processes in the future. **The Sponsorship team should schedule the Framework Document reviews to fit in with the timing of future Triennial Reviews.**

Role of the Chair and Chief Executive Officer

- 3.13** In both GLAs, the annual appraisals of the CEO and Executive Chairman are carried out by an internal GLA Committee. This does not comply with the requirement that the appraisal should be carried out by the sponsoring department

and as an arrangement does not provide the Department and indirectly the public, with an external assessment of how well they are leading their Board. However, the arrangements should recognise that neither post is a formal public appointment. **Therefore this review recommends that the annual appraisal of NLB's Chair and TH's Executive Chairman should continue to be conducted by a GLA Committee but must include views and evidence from a DfT senior official.**

- 3.14** Within both GLAs, annual appraisals of NEDs are undertaken. However, there is no written record kept in either organisation of the NEDs' objectives or appraisal discussions. **Whilst the appointment of NEDs are not in the most part public appointments, all NEDs who are not filling ex-officio posts should have objectives and their performance should be annually reviewed and documented.**
- 3.15** The current Chair in NLB has not yet met with Ministers despite being in post for nearly a year. **The review recommends that NLB should ensure it has a structured approach to scheduling regular Chair meetings with Ministers.**
- 3.16** Trinity House combines the role of Chair and Chief Executive and is led by an Executive Chairman. Although this is not compliant with the Cabinet Office guidance, there is little evidence that the combination of roles weakens the governance in TH. There is a Vice Chair in place on the Lighthouse Board and no TH NEDs felt that the Executive Chairman had an unacceptable level of influence. **However, this arrangement should be reviewed regularly by the Department particularly when a new Executive Chairman is recruited with a view to complying with the best practice guidance in the future.**

Role of the Non-Executive Board members

- 3.17** Both organisations have ex-officio appointments on their management boards alongside openly recruited non-executive directors. Only one of these recruited NEDs is a SoS appointee (in NLB); the remainder are all SoS nominees in both organisations.
- 3.18** Changing the composition of the NLB's Board of Commissioners would require amending the 1995 Act and in the case of TH amending the Lighthouse Board 'Articles' as a minimum. However, this review did not receive any evidence that these arrangements directly impacted on either Board's performance (and some respondents suggested that having access to other areas of specialism for example legal experts, strengthens the Board's expertise). Therefore without strong evidence to support changing them, these Board arrangements should be left as they are at this point in time.
- 3.19** There are a number of prescribed areas of expertise in both GLAs that NEDs are recruited into, in particular marine, finance and commercial experience. This ensures that there is the appropriate expertise across the NEDs to be able to provide effective challenge and scrutiny. However, the review did receive some evidence that the Boards could be underrepresented in the field of engineering. As the provision and maintenance of AtoN is essentially an engineering activity, **the GLAs should ensure that the NEDs have an appropriate breadth of expertise that given its extensive asset base, includes engineering and infrastructure asset management.**
- 3.20** NLB and TH both have male dominated Boards (women comprise 1 of 11 on the Managing Board in NLB and 1 of 8 on the Lighthouse Board in TH). This is not a

surprise given that the maritime and engineering fields are very traditionally male. However, the Government has an aspiration that 50% of new public appointments are female by 2015. Although only one of the NED positions is a Secretary of State appointment from across both GLAs (and therefore the only one included in the scope of the target), it seems that there is a case for trying to increase the proportion of women on their respective Boards whilst managing the need to secure the necessary expertise on the Board. Given the presence of ex-officio appointments on both GLA Boards (over which the GLAs have no influence), it is even more important diversity is taken into account in the recruitment of other Board members. **The GLAs should consider what further measures they can introduce to redress the gender imbalance including encouraging a more diverse field of applicants for roles.**

Effective Financial Management

- 3.21** Most Cabinet Office requirements are met by both NLB and TH on effective Financial Management with the exception that neither GLA publishes details of the expenses claimed by its Board members and senior staff. It is a Cabinet Office requirement that all public bodies do so in order to demonstrate that they are conducting their operations as economically, efficiently and effectively as possible. **The review therefore recommends that both NLB and TH publish details of expenses claimed by and hospitality provided to its Board members.**
- 3.22** During the course of obtaining evidence for this analysis, the classification of Light Dues as a tax and the consequential designation of the GLAs to the DfT was discussed at length. The review team sought evidence on this issue from the GLAs, the GLF Accountant, DfT Finance and Internal Audit colleagues and the Office for National Statistics.
- 3.23** The rationale underpinning the designation to DfT was that since Light Dues was deemed a tax, the DfT should be accountable to both Parliament and the public for its use. The practical result of this designation is that GLA annual accounts are consolidated into the DfT Group annual accounts and they fall within some other Departmental reports and processes.
- 3.24** Both GLA Boards (executive and non-executives) feel that this change has significantly increased the bureaucratic burden of financial reporting now placed on them to the extent that it has had an adverse impact on progress to cut costs under the RPI-X% funding regime.
- 3.25** However, DfT officials felt that there had been progress in reducing the demands placed on the two GLAs, recognising their small size and annual expenditures. The GLAs have now completed their first set of accounts for DfT consolidation so that future returns should be less resource intensive. If this is not the case, **the GLAs should assemble the evidence of that additional burden to be used as the basis for a further discussion with DfT sponsorship and finance colleagues.**

Communications and Engagement

- 3.26** The review has been offered strong evidence (from DfT and industry stakeholders) that both GLAs have demonstrated an increasing willingness to listen and consult in

the past 4 years. This engagement has taken place both as individual GLAs but also through the Joint Users' Consultative Group which involves all three GLAs.

- 3.27** Both GLA Boards have considered holding open Board meetings and concluded that there would be little value added given the technical nature of their work that is not obviously in the public arena. However, in order to demonstrate their openness to the public and allow the local public an opportunity to learn more and ask questions about their work, **the GLAs should consider holding an open meeting annually perhaps by extending an existing stakeholder consultation meeting to include any members of the public who have an interest in their work.**
- 3.28** Additionally, in line with the general recommendation that TH should proactively increase its transparency, it should publish its Board minutes on its website.

Conduct and Leadership

- 3.29** Both organisations satisfactorily meet all requirements with the exception that **NLB should ensure there are clear and explicit rules and guidelines in place on political activity for Board members and staff alongside effective monitoring systems to ensure compliance.**

Cross GLA Considerations

Light Dues

- 3.30** The majority of stakeholders had no strong views on the structure and payment process of Light Dues. It was acknowledged however, that the system needed to be reviewed regularly to ensure it continued to offer as fair and efficient payment mechanism as possible to fund the provision of marine AtoN in the future.
- 3.31** Given the necessity to continue with the Light Dues system to pay for GLA activities, **all GLAs should look for practical ways to facilitate the efficient collection of those payments**, for example specific suggestions were put forward to allow TH access to an MCA database to aid cross referencing of vessel journeys and also to introduce a penalty for late payment. Consideration of both of these suggestions will be taken forward by the relevant DfT teams.

Joint Strategic Board (JSB)

- 3.32** There was widespread agreement that the JSB had brought about the closer working that was needed to ensure the three GLAs worked more efficiently.
- 3.33** In the period immediately after the Atkins report was published, the JSB had a clear set of big issues to work on including addressing a significant pensions liability, specifying and letting a tri-GLA helicopter contract and facilitating commercial income. Many of these big projects have or are due to conclude in the coming months so **the JSB should spend some time to think about its ongoing role and identify the next set of opportunities for working more efficiently and collaboratively. It should also develop measures for measuring its added value and monitoring its performance.**

Research and Development

- 3.34** There is an in-house tri-GLA research and development centre, financed directly from the GLF, located at TH's head office in Harwich. The centre, named Research and Radio Navigation (R&RNAV), is charged with supporting the GLAs in improving reliability, efficiency and cost effectiveness of their AtoN services. Their annual budget for 2012/13 was £1.76 million. Information about its projects and activities is available on its separate website, <http://www.gla-rnav.org/>.
- 3.35** The Director of R&RNAV formally reports to all three GLA Chief Executives and there is an annual process for agreeing with them the workplan and budget for the coming year. However, day to day reporting is through TH and R&RNAV's five year budget is included at the end of TH's Corporate plan. As R&RNAV's funding comes directly from the GLF, they are one of the few GLA functions that is outside the RPI-X% efficiency regime, which applies to each individual GLA's running costs.
- 3.36** The review team noted that there was little publicly available information about how R&RNAV is structured, governed and its relative priorities and objectives. Although included in TH's corporate plan, the current approach does not provide an equivalent level of detail as that provided for each GLA's core activities and that DfT would need to understand their contribution and hold them accountable. As a result, the review team have a number of recommendations:
- **The GLAs should ensure that there is a link to R&RNAV's website from their own individual websites.**
 - **The Department and GLAs should agree a mechanism to ensure that R&RNAV's activities are exposed to external challenge and scrutiny by non-executives in line with all other GLA activities.**
 - **R&RNAV should submit their own Corporate Plan as part of the same annual process that applies to all three GLAs, setting out their objectives, targets and KPIs.**
 - **Recognising that R&RNAV currently falls outside the efficiency regime, they should have an efficiency objective to ensure that this is an equally high priority to elsewhere within the GLAs, or each GLAs' share of their expenditure should fall within the GLAs' own targets to encourage greater ownership of R&RNAV's work.**

4. Ongoing efficiency savings

- 4.1** There is ongoing pressure for the GLAs to continue to scrutinise and challenge themselves in order to reduce costs. Stakeholders did express views on ways to continue to deliver improvements and further efficiencies as well as the need for a long term assessment of the ongoing need for AtoN as technologies develop and become more widespread.
- 4.2** Since the Atkins report, both GLAs have introduced organisational and operational changes which have brought many benefits without the need for structural reorganisation, through closer cooperation, joint procurement and sharing best practice. This has resulted in significant costs reductions in the GLAs running costs; between 2004/05 and 2012/2013, NLB and TH have reduced running costs by 16.8% and 18.9% respectively at constant prices.
- 4.3** The key driver for reducing overall costs has been the five year funding regime of RPI-X% agreed with DfT in 2011. This has been key for the GLAs demonstrate their commitment to reduce their cost base and received significant support from the shipping industry. This regime provides the GLAs with a clear five year funding envelope, the industry with an indication of spend against the GLF over that same time period, and over the few years has delivered cost reductions to enable a reduction in Light Dues with effect from 1 April 2014.
- 4.4** The RPI-X% target is set as a Board target for both GLAs against which CEO and Executive Director bonuses are assessed. Where appropriate, individual efficiency objectives are included in personal job objectives to ensure that the need for being efficient is embedded across all staff.
- 4.5** To date, both GLAs are forecasting to exceed their RPI-X% targets over the five year period.
- 4.6** A significant proportion of these cost reductions has been realised by measures such as joint procurement, including the ongoing helicopter contract and cooperation, for example on ship sharing, to facilitate more contracted work. Both GLAs have set themselves targets to increase their commercial income by utilising any spare capacity within their assets as efficiently as possible. These targets are set out in their Corporate Plans.
- 4.7** It is recognised that there will be another five year efficiency regime in place from April 2016. Whilst there is a risk that the more obvious areas for cost reductions have already been realised within the GLAs, there was a widespread view from stakeholders that in this industry which is so driven by technological developments (both reducing the costs of running and maintaining the AtoN assets but in some cases, reducing the need for so many AtoN), there will always be a case for a reducing cost base.
- 4.8** Looking ahead, a few respondents felt that the upcoming fleet review is a further opportunity to think laterally on the number of vessels needed across all 3 GLAs

and how they are operated. One respondent mentioned by example the flexible approach taken by the MoD in letting contracts to support its marine activities, particularly in negotiating a rapid response provision by building in different levels of access to vessels at different costs.

5. Concluding Remarks

- 5.1** This Review has found that the current functions of the GLAs are still necessary, and that they should be delivered by an NDPB. The GLAs are the right bodies to deliver these functions within the UK at the moment. However, in order to continue to provide a good service with a decreasing budget, there needs to be an ongoing focus to continue to realise efficiencies and reduce costs.
- 5.2** One area that will need attention is for the GLAs to think strategically about how their role might change in the long term. Improvements in the technology used in marine AtoN will significantly change what the GLAs need to deliver and how they deliver it. The GLAs alongside DfT need to be thinking about their long term role and how that transition should be best managed, both domestically and internationally.

Cost of the Review

- 5.3** This Review was carried out by existing Civil Servants within DfT. The additional costs incurred, arising from travel and subsistence costs for the DfT review team and the GLA staff totalled less than £1400.