House of Commons

Committee of Public Accounts

Nuclear Decommissioning Authority: Managing risk at Sellafield

Twenty-fourth Report of Session 2012–13

Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons to be printed 23 January 2013

HC 746
Published on 4 February 2013
by authority of the House of Commons
London: The Stationery Office Limited
£11.00

Committee of Public Accounts

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The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

The Nuclear Decommissioning Authority (the Authority), an arm's-length body of the Department for Energy and Climate Change, was set up in 2005 with the specific remit to tackle the UK's nuclear legacy. Sellafield is the largest and most hazardous site in the Authority's estate and is home to an extraordinary accumulation of hazardous waste, much of it stored in outdated nuclear facilities. It is run for the Authority by Sellafield Limited, the company licensed by regulators to operate the site. In November 2008, the Authority contracted with an international consortium—Nuclear Management Partners Limited—to improve Sellafield Limited's management of the site, including the development of an improved lifetime plan.

Over several decades, successive governments have been guilty of failing to tackle issues on the site, allowing an enormous nuclear legacy to build up. Deadlines for cleaning up Sellafield have been missed, while total lifetime costs for decommissioning the site continue to rise each year and now stand at £67.5 billion. It is essential that the Authority brings a real sense of urgency to its oversight of Sellafield so that the timetable for reducing risks does not slip further and costs do not continue to escalate year on year.

The Authority believes it now has a credible plan for decommissioning Sellafield and expects Sellafield Limited to start retrieving hazardous waste currently held in legacy facilities in 2015. Nonetheless, given the track record on the site and given that only 2 of the 14 major projects were being delivered on or ahead of schedule in 2011-12, we are not yet convinced that this date will be met or that sufficient progress is being made. Basic project management failings continue to cause delays and increase costs, while doubts remain over the robustness of the plan, in particular whether the Authority is progressing the development of the geological disposal facility as quickly as possible.

The Authority has a cost reimbursement contract with Sellafield Limited and all bar one of the major projects at the site involve a cost reimbursement contract between Sellafield Limited and its subcontractors. This means that taxpayers—rather than Sellafield Limited or its subcontractors—bear the financial risks of delays and cost increases. This contracting approach may be the best option while the plan and individual projects contain significant uncertainties, but the Authority has yet to work out how and when it will start to transfer more risk to the private sector.

More immediately, we are not yet convinced that taxpayers are getting a good deal from the Authority's arrangement with Nuclear Management Partners. All payments to Nuclear Management Partners and, indeed to their constituent companies, need to be strictly controlled and determined by robust, verified assessments of the value gained, so that payments are not made which would seem to constitute a reward for failure. Furthermore, the costs of seconding staff from Nuclear Management Partners' parent companies appear excessively high, especially given the wage rates in the local economy.

Finally, an enormous amount of public money—some £1.6 billion—is spent at Sellafield each year. Such public expenditure can secure substantial wider economic benefit in what is an area of high need and deprivation, for example through support for businesses, job

creation and skills development in the region and in the UK. But there needs to be a clearer ambition for what this investment can achieve and a proper process for measuring and monitoring its actual impact.

On the basis of a Report by the Comptroller and Auditor General,[1] we took evidence from the Department of Energy and Climate Change, the Nuclear Decommissioning Authority and Sellafield Limited on the management of risks at Sellafield.

1 C&AG's Report, *Managing risk reduction at Sellafield*, Session 2010-12, HC 630

Conclusions and recommendations

1. **The lifetime plan for Sellafield may be more credible than previous plans but it is still not clear that it is sufficiently robust.** The plan has not been sufficiently tested against benchmarks and there are a number of uncertainties yet to be resolved, for example regarding the character of the waste in the legacy ponds and silos, which have a potentially significant impact on costs and schedules. Under current plans the design and build of a geological disposal facility for long term storage of hazardous waste is expected to take another 27 years to 2040. It seems implausible that this critical project cannot be expedited. The Authority should develop and apply benchmarks to assess the robustness of the lifetime plan and challenge existing assumptions on costs and timescales for critical projects; and rigorously examine the timetable for the geological disposal facility.

2. **Basic project management failings continue to cause delays and cost increases to critical risk reduction projects and programmes.** The Authority has missed regulatory targets but expects to start retrieving waste from the 'legacy' cooling ponds and storage silos in 2015. To help ensure there is no further slippage to timetables and costs are kept under control, the Authority should invite the Major Projects Authority to review the most critical and largest projects, and should report publicly on the progress of key risk reduction programmes against plans and budgets.

3. **Because of the uncertainty and delivery challenges at Sellafield, taxpayers currently bear almost all of the financial risk of cost increases and delays.** The use of cost reimbursement contracts for Sellafield Limited and its subcontractors means the financial risks are borne by the taxpayer. This contracting approach may be the best option where costs are very uncertain. However, as project and programme plans firm up and the lifetime plan becomes more robust, it should be possible to move away from cost reimbursement contracts. The Authority should determine how and when it will have achieved sufficient certainty to expect Sellafield Limited to transfer risk down the supply chain on individual projects and then to reconsider its contracting approach for the site as a whole.

4. **The level of 'savings' achieved at Sellafield is central to the Authority's decisions on contract renewal and the performance fee paid out each year, but such savings figures can be overstated.** Nuclear Management Partners claim to have achieved efficiency savings worth almost £700 million. The Authority is verifying these savings but National Audit Office reports have shown that, across government, claimed savings figures are often overstated. The National Audit Office should review the basis on which savings have been assessed and provide assurance to the Committee that the level of savings achieved at Sellafield has been measured and reported accurately.

5. **The Authority has not been able to demonstrate what value it is getting for the payments made to Sellafield Limited.** In 2011-12, the Authority paid out £54 million in fees, £17 million for 'reachback' staff and £11 million for executive staff seconded from Nuclear Management Partners. Sellafield Limited also awarded

contracts to Nuclear Management Partners' constituent companies worth some £54 million in 2011-12. That means, in effect, that those who let contracts awarded their own constituent companies contracts, which raises concerns about fair competition and value. The Authority should ensure *all* payments are linked to the value delivered and that payments are not made where companies have failed to deliver. It should also routinely provide assurance on the operation of its controls over payments for Nuclear Management Partners' constituent companies.

6. **It is not clear what wider economic benefits have been achieved from the enormous quantity of public money spent at Sellafield.** The Department for Business, Innovation and Skills, the Department of Energy and Climate Change, the Authority and Sellafield Limited all provide support for the development of the nuclear supply chain. In addition, the £1 billion spent annually by Sellafield Limited on procurement ought to help create jobs, build skills and drive sustainable economic growth in the region and the UK. The Authority and Sellafield Limited should set out what added value can be achieved from taxpayers' investment in Sellafield, clarify their roles in delivering this and set performance targets for contributing to the development of the regional and national economy and workforce.

1 Projects and plans

1. Since the Committee of Public Accounts last examined the Nuclear Decommissioning Authority (the Authority) in 2008, the Authority has secured a new lifetime plan for Sellafield, with a total cost of some £67.5 billion spread over the duration of the plan to 2120. The Authority told us that this plan was more coherent and complete than previous plans.[2] It accepted nonetheless that there were still significant gaps and uncertainties and that there was more work to do on benchmarking cost and schedule estimates, on assessing risks and on ensuring the plan included an appropriate level of contingency.[3] The Authority also admitted that until it is retrieving waste from the legacy ponds and silos, it will not be able to say with confidence that the total cost of decommissioning has peaked and will plateau or start to reduce.[4]

2. The Treasury and the Department of Energy and Climate Change (the Department) have accepted that expenditure on the highest hazards should not be constrained, but recognised that this does not obviate the need for good plans and management of costs.[5] The Authority told us it was trialling a benchmarking tool which could help to challenge cost and schedule estimates in the plans but had not yet applied it at Sellafield.[6]

3. The plan for the long term storage of hazardous waste is a crucial determinant of the cost and timescales for risk reduction and decommissioning at Sellafield. The Department is proposing to design and build an underground storage facility— commonly known as 'the geological disposal facility'— which will contain much of the waste from Sellafield as well as other nuclear sites. The Authority is responsible for designing the geological disposal facility and its plan was that this facility would not be ready until 2040. Once a community has volunteered to accept this facility in their area, the plan allowed 15 years to complete the detailed geological assessments necessary before the site could be confirmed as suitable. After that, a further 12 years would then be required to dig out the site and construct the facility.[7] The Department acknowledged that it may be possible to accelerate this work and told us that it had asked the Authority to review whether the timetable could be brought forward.[8]

4. Under its new lifetime plan for Sellafield, the Authority does not expect to meet previous deadlines for cleaning up waste—notably those set by the Nuclear Installations Inspectorate—which it considered undeliverable.[9] However, the Authority assured us that the rapid and safe remediation of the highest hazard facilities at Sellafield was its foremost priority.[10] It told us that it expected to start retrieving waste from these facilities over the

2 Qq 6-7

3 Q 9

4 Q 43

5 Qq 14-17

6 Q 40

7 Qq 44-57

8 Q 45

9 Q 5

10 Q 1

next three or four years, starting to remove materials from the first generation magnox storage pond in 2015, from the pile fuel cladding silo in 2016 and from the magnox swarf storage silo no later than 2019.[11]

5. The Authority and Sellafield Limited must act with real urgency and improve project management to tackle the risks on the site in good time. Recent performance has not been satisfactory.[12] In 2011-12, only 2 out of the Authority's portfolio of 14 major projects were being delivered on or ahead of the schedule for that year.[13] Basic project management failings have occurred on major projects which could and should have been avoided and were not excusable by the uniqueness of the projects or the circumstances. In particular, the Authority accepted that management of the evaporator D project had not been good enough. Costs on this project have gone up by almost £250 million since 2009 and the project is 18 months behind its original schedule because of Sellafield Limited's failure to spot deficiencies in a key element of the design, or adequately to check the capability of the supply chain.[14]

6. The Nuclear Decommissioning Authority reviews Sellafield Limited's projects as part of its routine assurance work and told us it had established a Projects and Programmes Review Group modelled on the Major Projects Authority to scrutinise major projects across its estate.[15] The Major Projects Authority currently has a role in scrutinising projects where the Nuclear Decommissioning Authority is the senior responsible officer, for example the Nuclear Decommissioning Authority's competitions for the contract to manage one of the sites in its estate. The Major Projects Authority does not review any major projects which are managed by Sellafield Limited under its contract with the Nuclear Decommissioning Authority.[16] The Nuclear Decommissioning Authority told us it was not opposed in principle to the Major Projects Authority providing additional scrutiny of large and critical projects undertaken at Sellafield, such as the silos direct encapsulation plant.[17]

7. The Authority reports to the Department on progress at Sellafield on a monthly basis and reports publicly on progress against its corporate targets updating its website on a quarterly basis. It recognised, however, that it could do more to promote better public reporting, for example in relation to major projects.[18]

11 Q 43

12 Qq 13, 40

13 C&AG's report, para 3.6 and figure 13

14 Qq 26-31

15 Q 151

16 Q126

17 Qq 157-158

18 Q 118

2 Maximising value for taxpayers

8. The Authority was not in a strong position to ensure risk transfer to the private sector when it ran the competition for the contract to manage the Sellafield site in 2008 as it did not have a coherent plan for the site or an adequate understanding of the scope, schedule or cost of the work required. The Authority told us that it would have been theoretically possible to build some sort of risk transfer into the contract. However, the Authority told us that for the terms to be acceptable, the premium demanded by bidders from the Authority would have been astronomical. The Authority therefore proposed a cost reimbursement contract and accepted that none of the final four bidders in its competition for Sellafield would take on any financial risk.[19]

9. Many of Sellafield Limited's contracts with its subcontractors are undertaken on a cost reimbursement basis or involve only limited transfer of financial risk, owing to the continuing uncertainty over the true costs of the work on the site. Only one of the 14 major projects at Sellafield involves a fixed cost contract.[20] This means taxpayers, rather than Sellafield Limited or its subcontractors, bear the full cost of the work on the site regardless of whether there are delays and cost overruns.

10. The Authority told us that it now had a more complete and more coherent plan. It also told us, nevertheless, that it remained a long way away from having the certainty on costs necessary to be able to transfer risk to the site management company. Instead it has encouraged Sellafield Limited to pass some of the risk down to the supply chain for specific projects or programmes. The Authority told us that this had been done where there was good benchmarking and reliable data on which to base an estimate of a target or fixed cost and that Sellafield Limited was looking at whether there is scope for further risk transfer through the competition for the silos direct encapsulation plant.[21]

11. Nuclear Management Partners claimed to have achieved efficiency savings worth £700 million since 2008.[22] By the end of the first contract term in 2014, it expected to have achieved just enough savings—£1.15 billion—to meet the minimum performance standard required to enable the contract to be renewed, that is 80% of the savings it offered in its original bid for the contract to run Sellafield.[23] Some of these savings came from Sellafield's reduction of the proportion of its spending on support and overhead costs, as staff had been redeployed from support and overhead activities into frontline activities. Following our review of decommissioning in 2008, the Authority committed to reducing support and overhead costs across its estate by 25% over four years. The Authority told us that Sellafield was ahead of schedule against this target.[24]

19 Q 62

20 Qq 58, 60-61

21 Q 62

22 Q 62

23 Q 145-146, 152

24 Q137

12. The level of efficiency savings achieved determines the fees earned by Nuclear Management Partners and will be a factor in the Authority's forthcoming decision on contract renewal. In 2011-12, the Authority paid £54 million in fees to Sellafield Limited, which it can pay on as dividends to Nuclear Management Partners. The contract with Sellafield Limited provides for fees which are performance related so that Sellafield Limited can earn more money if it works quicker and for lower cost. In the case of the evaporator D project, whose lifetime costs have increased by almost £250 million since 2009, the Authority has paid Sellafield Limited small amounts of fees but reported that overall Sellafield has so far lost fees of £17 million and could lose a further £25 million.[25]

13. It is vital—if the taxpayer is to get a good deal from this contract—that past and future 'savings' figures are properly tested.[26] The Authority's central audit function and its 'site-facing team' based at Sellafield examined and verified these savings figures. But the National Audit Office have looked in detail at Government savings figures in the past and established that claimed savings have often been overstated. [27]

14. In addition to fees, the Authority also pays Sellafield Limited significant sums for executive and expert staff on secondment from Nuclear Management Partners. In 2011-12 it paid £17 million for experts seconded from Nuclear Management Partners' constituent companies, known as 'reachback', at an average of some £270,000 per head, and £11 million for senior executive staff, at an average of £690,000 per head, to bring in international expertise. The cost of Sellafield Limited's highest paid Director was just over £1.2 million. While these totals include some other costs, such as re-location costs for expatriate employees, they represent huge salaries, not least considering the economy in the North West.[28] The Authority does not operate a cap on salaries at Sellafield, unlike in the United States, where the Department of Energy has set a cap of $750,000 on executive pay. The Authority told us that Sellafield's rates were necessary in a competitive market to ensure that it could secure the skills it needed. However, it admitted that it had struggled for some time to get an adequate description of why 'reachback' was being used on occasions. There is therefore a risk that Sellafield Limited and Nuclear Management Partners are making additional money at the taxpayers' expense.[29]

15. Nuclear Management Partners' constituent companies can also make profits through contracts from Sellafield Limited. Contracts between Sellafield Limited and Nuclear Management Partners' constituent companies AMEC, AREVA and URS accounted for 6% of total procurement spending at Sellafield in 2011-12, worth £54.4 million. This total could rise in future, particularly as Sellafield Limited lets major framework contracts. The Authority required Sellafield Limited to make sure it did not give contracts preferentially to its parent company's constituent businesses and the Authority examined such contracts in particular detail. The Authority told us that this arrangement was standard practice in the

25 Qq 34-39, 103

26 Q150

27 Qq 150-152

28 Qq 68, 70, 79

29 Qq 68, 74-81, 128

decommissioning industry and that it had sufficient controls in place, but recognised that it could be perceived differently.[30]

16. Sellafield Limited spends almost £1.6 billion of public money each year.[31] This major investment by the taxpayer has the potential to achieve considerable sustainable economic benefits for the region and for the UK.[32] Almost £1 billion is spent annually on procurement by Sellafield Limited and it is important that this spending supports local regional innovation and provides work for local companies and employment for local people. Sellafield Limited has made arrangements to give local visibility of the work available on the site and has worked with its large suppliers to encourage them to engage with the local supply chain.[33]

17. Sellafield Limited, Nuclear Management Partners, the Department for Business, Innovation and Skills and the Department of Energy and Climate Change are all involved in initiatives to support the development of the nuclear supply chain. Both Sellafield and Nuclear Management Partners have funded the Britain's Energy Coast organisation, which is the main economic development agency in this area, and have provided funding worth £7 million between them. Britain's Energy Coast is due to publish a blueprint for local economic development[34] and the Department of Energy and Climate Change has developed a strategy for building a UK supply chain for the whole nuclear industry.[35] However, there was no clear ambition or targets for maximising the impact of taxpayers' money spent at Sellafield in terms of job creation, business support or skills development in the area [36]

30 Qq 88-93

31 C&AG's Report, para 5

32 Q105

33 Qq 106, 109, 115

34 Qq 106-107

35 Qq 107, 113

36 Q 114

Formal Minutes

Wednesday 23 January 2013

Members present:

Margaret Hodge, in the Chair

Stephen Barclay
Jackie Doyle-Price
Mr Stewart Jackson
Fiona Mactaggart
Mr Austin Mitchell
Nick Smith
Ian Swales
Justin Tomlinson

Draft Report (*Nuclear Decommissioning Authority: Managing risk at Sellafield*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to17 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Twenty-fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 26 November 2012).

[Adjourned till Monday 28 January at 3.00 pm

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

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Second Report	Mobile Technology in Policing	HC 1863
Third Report	Efficiency and reform in government corporate functions through shared service centres	HC 463
Fourth Report	The completion and sale of High Speed 1	HC 464
Fifth Report	The Regional Growth Fund	HC 104
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Ninth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 526
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Thirteenth Report	Financial viability of the social housing sector: introducing the Affordable Homes Programme	HC 388
Fourteenth Report	Assurance for major projects	HC 384
Fifteenth Report	Preventing fraud in contracted employment programmes	HC 103
Sixteenth Report	Department of Health: Securing the future financial sustainability of the NHS	HC 389
Seventeenth Report	Department of Health: The management of adult diabetes services in the NHS	HC 289
Eighteenth Report	HM Treasury: The creation and sale of Northern Rock plc	HC 552
Nineteenth Report	HM Revenue & Customs: Annual Report and Accounts 2011-12	HC 716
Twentieth Report	Department for Energy and Climate Change: Offshore electricity transmission – a new model for infrastructure	HC 621
Twenty-first Report	The Ministry of Justice's language service contract	HC 620
Twenty-second Report	British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General	HC 774

Oral evidence

Taken before the Committee of Public Accounts

on Monday 26 November 2012

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon
Meg Hillier
Austin Mitchell
Ian Swales

Amyas Morse, Comptroller and Auditor General, and **Marius Gallaher,** Alternate Treasury Officer of Accounts, gave evidence. **Jill Goldsmith**, Director, NAO, **Gabrielle Cohen**, Assistant Auditor General, NAO, and **George Last**, Senior Analyst, NAO, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Managing risk reduction at Sellafield (HC 630)

Examination of Witnesses

Witnesses: **John Clarke**, Chief Executive Officer, Nuclear Decommissioning Authority, **George Beveridge,** Deputy Managing Director, Sellafield Limited, **Phil Wynn Owen**, Acting Permanent Secretary, Department of Energy and Climate Change, and **Mark Higson**, Office for Nuclear Development, Department of Energy and Climate Change, gave evidence.

Q1 Chair: Can I start by saying a thank you both to Sellafield Limited and the NDA for hosting us today? I think we all felt we learned a lot from our very short visit. Perhaps a shared view is we do not know what our predecessors were doing for 30 years, not getting their brains around the issues that we are now talking about today, and I think they should all be blamed for that.
We will now proceed with the usual session. What hits you as you go around is really a sense of urgency and I think I need to hear from John Clarke, George Beveridge and, perhaps, Phil Wynn Owen. How can you convince us, given the record that we have laid out in the Report, particularly Figures 11 and 12, which show almost every project behind time and most projects over budget, that you are really working with all the urgency that is required to get us to a safe and permanent solution for dealing with the nuclear waste on the Sellafield site?
John Clarke: Sellafield is our number one priority within the NDA, and within Sellafield the rapid and safe remediation of the high hazard facilities, some of which you saw this morning, is our number one priority and the number one priority of Sellafield Limited. We are doing all we can in terms of making sure that we have the right plans, funding and monitoring arrangements in place to make sure that work is progressed as quickly as possible, but always with due regard for safety, security and care for the environment. So if there is any suggestion of a decision being the quick decision or being the right decision, then we would always encourage and Sellafield would, of course, always make sure they take the right decision rather than the quick decision.

Q2 Chair: That suggests not having a sense of urgency. Of the 14 projects that the NAO looked at, how many of those are on time?
John Clarke: The majority are not. I think there are only three.

Q3 Chair: How many are on time?
John Clarke: Three are on or ahead of schedule out of 14.

Q4 Chair: Three out of 14, so of course you want the right decision, but you want that taken in a properly speedy manner and that does not appear to be the case.
John Clarke: We always have to balance the sense of urgency with the sense of making sure it is done correctly. I am not trying to defend the fact that all projects have not achieved what they set out to achieve.

Q5 Chair: I accept that, but it was the regulator who set the timeframe and presumably the regulator had, in their thoughts, some idea about the deliverability of what they set.
John Clarke: To be honest, I am not sure they did.
Chair: They must have done.
John Clarke: The history of the specifications is that in 2000 the Nuclear Installations Inspectorate, as it was at the time, the forerunner of the Office for Nuclear Regulation, placed legal specifications on Sellafield Limited or BNFL, as it was at the time, based on plans that existed in BNFL in 1998. They assumed that no progress had been made between 1998 and 2000. They added two years to the dates and they made those the legal specifications. The issue was that those plans upon which they were based were not properly underpinned. They did not have proper technical underpinning. They did not have proper plans associated with them to show how delivery would be achieved. When we got into the work of

trying to address and tackle those plans, it became clear that those dates were simply not deliverable.

Q6 Chair: So how do we know that your dates are deliverable? You are already behind. It is this sense all the time, every time somebody looks at it, of a few more years' delay and a few extra billion pounds in cost.
John Clarke: The first thing is that the Office of Nuclear Regulation and the Environment Agency have acknowledged the plans that exist now, which have only existed since 2011, are, for the first time, coherent plans that meet all the strategic outcomes. So I would not say they are content with the dates in those plans and we are not content with the dates in those plans, but we do recognise, for the first time, that they are credible dates and credible plans.

Q7 Chair: I am just going to draw you back a bit, because you set a plan, and everybody says—we get this endlessly in our hearings—"totally wrong in the past, we have got it all much better in the future. This one is going to work". If you look at the summary, page 7, paragraph 10, what the NAO says there is this plan, "does not have robust benchmarks to make judgments on proposed levels of performance, the scope for acceleration, or the potential for efficiencies. Nor did the revised plan provide sufficient information to allow the Authority to understand programme-level risks fully. The Authority is working to understand and address the significant delivery uncertainty and scheduling risks that still remain, for example, in completing facilities". And then you go on and on and on down and over the page and you find that the data you have, the uncertainties you have, make this as likely to be a plan that you are not going to fulfil as the 2007 plan.
John Clarke: I do not think that is the case, because the plan that we have now is a plan that is coherent. It is a plan that shows all the steps that need to be taken in order to remediate the hazards. The plan that we had in 2007 was not.

Q8 Chair: But, Mr Clarke, you signed off on the NAO Report.
John Clarke: Yes.

Q9 Chair: So you accepted that you do not have robust benchmarks to make judgments on proposed levels of performance. You accept that you do not have sufficient information to allow the Authority to understand programme-level risks fully.
John Clarke: I accept that the plan is not all that we would wish it to be yet, but my point is that for the first time it is a plan that shows how Sellafield will deliver all the outcomes that are necessary: the full programmes of work, which are all linked together, where you can see individual projects from a programme of work, from removing waste from some of the old facilities, treating it, storing it and ultimately disposing of it. All those projects that lead to a programme of work we have for the first time. We did do some benchmarking. I fully accept that there is further benchmarking that we would wish to do. We are trialling another benchmarking tool. Some of these programmes and projects though are unique in their nature and they do not lend themselves to easy benchmarking, but I fully accept there is more we can do. There is certainly more we can do in terms of underpinning the level of risk, putting appropriate contingency into the plans, but they do form, I believe, a solid basis for going forward.

Q10 Chair: In 2007, the total undiscounted cost of decommissioning was thought to be £61 billion. By March 2012, it was £100 billion of which £67.5 billion was at Sellafield. What is it today?
John Clarke: We have not changed the estimate at this stage, but we will be changing it again as we come to the end of the year and reviewing progress that has been made to date.

Q11 Chair: Presumably you have some figure in mind—it is going up; it is not coming down.
John Clarke: I think it is more likely to go up than down at this stage, as we get a better grip on some of the uncertainties. One of the projects looked at in the Report was the silos direct encapsulation plant, the estimated cost of which has gone up considerably during the year. That has gone up primarily because we now have a better understanding of the work that will be required to treat that waste. It will be a bigger plant than first envisaged; it will contain more equipment than first envisaged and it will cost more money than first envisaged.

Q12 Chair: From what you know to date, how much extra are you putting in?
John Clarke: That project has gone up by between £600 million and £800 million.

Q13 Chair: Mr Wynn Owen, do you want to comment on the spiralling cost and the robustness of the plan, as the ultimate accounting officer?
Phil Wynn Owen: Yes. It might just be worth revisiting the fact that it is clearly not satisfactory that the costs and the timescales continue to extend, but there are some mitigating factors. The NAO Report itself pointed out there are many activities at Sellafield that are unique, which makes it very difficult to benchmark whole project costs and timescales.

Q14 Chair: I accept it is a scary thing, trying to get rid of nuclear waste in a safe way, but we look at unique projects every day. We do not think that is an excuse for not having proper project management, control of costs and control over time delivery. I have to tell you that.
Phil Wynn Owen: As a former Treasury official and now as the DECC accounting officer, I do not accept that either. I did want to make clear that of the total NDA budget of around £3 billion of spend a year now, of which £2.2 billion is public expenditure, around £400 million last financial year was spent on these legacy ponds and silos. Both the Treasury and DECC have made very clear that within the ring-fenced NDA budget the expenditure on these highest risks and hazards should be prioritised. So money is not the

inhibiting factor to progress, though clearly we do want vigilance and good project management; it is absolutely vital to make sure the work is done expeditiously and on time and to plan.

Q15 Chair: So both you and the Treasury will up the budget, will you?
Marius Gallaher: No, not necessarily, but I agree with Mr Wynn Owen's statement that we must look at the costs and the expenditure plans and we are not in the business of spending money fruitlessly.

Q16 Chair: You have just been told they are going to be asking for more.
Marius Gallaher: Well, we will have to look at those figures.
John Clarke: No, I did not say that we would be asking for more in the short term.

Q17 Chair: Well, you are saying costs have gone up. We will come to the way you have identified savings later, but costs have gone up, so somebody has to meet that. Either you are saying, "We are going to take a longer time to deal with the issues" or you are saying that Treasury are going to give priority to meeting the costs on this.
Phil Wynn Owen: It is quite a significant budget, £3 billion, and it is worth noting that the NDA have saved over £1 billion: £400 million by removing the need for highly active storage tanks and £600 million by—

Q18 Chair: Yes, but they have spent a load of money on that so far. That is money wasted almost, is it not?
Phil Wynn Owen: Looking forward, it is still £400 million saved and they have also saved £600 million by cancelling the planned evaporator E project, which is no longer needed.

Q19 Chair: How much have they spent on those two projects to date, just to get it clear?
John Clarke: On the highly active storage tanks, I think we have spent £43 million.

Q20 Chair: So that is money wasted, and on the other one?
John Clarke: It is £43 million that we had to spend, because at the time that we were spending it we believed the likelihood was that we would need those tanks. We could not get agreement from the regulator to remove those tanks from the plan until we could prove, together with Sellafield Limited,-that we had adequate arrangements in place to make sure that we could safely handle the material that those tanks deal with without the need for new investment. Only when we could give that confidence to the regulator and get their agreement could we stop that project. So I do not believe that was wasted money. We did the minimum work necessary, which did cost £43 million, I grant you, but we were able to stop that project well before we got into the really big spend of the hundreds of millions of pounds that that project would have been, so there was a net saving of £400 million. But you cannot stop projects until you are absolutely clear that is the right thing to do.
Chair: And on the silos?

Q21 Mr Bacon: £528 million was spent on silos. This was on the direct encapsulation plant.
John Clarke: The silos direct encapsulation plant. This is going back from 1998 to 2004.
Mr Bacon: Yes.
John Clarke: Yes, there was. That was two previous attempts.

Q22 Mr Bacon: But construction was started before it was designed properly, was it not?
John Clarke: It was. That was prior to the NDA being in existence, but you are right. Construction was started in parallel to design continuing and, in both attempts, as work proceeded problems came to light with the nature of the material being handled and the processes being put in place to handle that material.

Q23 Ian Swales: So it seems like you started both those projects too soon. With hindsight, you should not have spent any of the money until you were clear what was needed. Is that what you are saying?
John Clarke: Yes, with hindsight, that is the case. But equally, there was a desire to try to get on and do. So I can understand why some of those decisions were taken, but they were taken in the early to mid 1990s. What we have decided for the silos direct encapsulation plant this time is that we will not sanction the big construction capital money until all the studies work has been completed and we have absolute confidence or are as confident as we can be, because there will always be risks when you start taking this material out of the silos that it may not behave as you thought it would. But we have taken every step that we can, together with Sellafield Limited, to make sure we understand what we are going to build, how long it is going to take and how much it is going to cost.

Q24 Ian Swales: Are there any other projects that you have started that you think might change as a result of new information? In other words, have we wasted any more money on projects that has yet to come to light, do you think? Is there any work that you have done that you are not sure whether it is the design or whatever is complete and the need is certain?
John Clarke: I do not believe we are in a situation of having—I am going to sound like Donald Rumsfeld if I am not careful—known unknowns. There is always the possibility, as we start to take material out of, particularly, the pile fuel cladding silo and the Magnox swarf storage silo, both of which you saw today, it may behave differently.

Q25 Ian Swales: Discovering that what you are dealing with is different is one thing. What I heard, I think, in the two projects you were talking about was that that was not the reason, was it? If you spend money and then discover the material is behaving differently, that is one set of arguments, but if you

spend money before you have completed design work or established the need or established something with the regulators, surely that is much more avoidable, is it not?
John Clarke: It is and, as I say, that predates the NDA and we will not be doing that this time.

Q26 Mr Bacon: The evaporator D does not predate the NDA; that was 2009. The Report says that "the Authority estimates that £50 million of the £244 million increase in the cost of evaporator D and part of the 18-month delay since 2009 is because the subcontractor lacked experience in welding to the necessary nuclear quality standards. The Authority was aware of these risks when it approved the start of construction." So you let the same thing happen again.
John Clarke: Evaporator D is somewhat different to the silos direct encapsulation plant. It was started early and there were some changes made to enable it to deal with solids. That was the technical aspect of it; it was a liquid only evaporator and became a solids handling evaporator. But I would have to say that evaporator D is a project that got away from Sellafield Limited, got away from us and I think it is a completely different type of project to the silos direct encapsulation plant that we are dealing with.

Q27 Chair: It was commissioned by you, was it not, Mr Beveridge?
George Beveridge: By me personally?
Chair: No, by the company.
George Beveridge: Yes.

Q28 Chair: My understanding is it was also over-commissioned, was it not?
George Beveridge: With evaporator D we had two principal problems. The first was in the design. We set some design seismic standards for seismic performance. They were very conservatively dealt with in the supply chain, down several levels in the supply chain. That was not spotted early enough, so that conservative design flowed through into fabrication, construction and resulted in a lot of additional cost and delays associated with that. So there were problems in design and with the supervision.

Q29 Chair: Who should have spotted it?
George Beveridge: We should have spotted that much more rapidly than we did. The seeds of it were sown very early on in the project, but we should have been on top of it more rapidly than we were.

Q30 Mr Bacon: You gave the Authority assurances that you could manage the risks. The Authority relied on those assurances and then it turned out you had not put in place appropriate quality assurance and appropriate training.
George Beveridge: We found that there was inadequate experience in the fabrications supply chain on meeting our nuclear standards, particularly associated with welding.

Q31 Mr Bacon: As Mr Swales was saying, that is the type of thing that you can find out beforehand, is it not? It is not like the technical difficulties you might encounter in the middle of an operation when something turned out to be surprisingly difficult or you found something that you had not expected. Assessing the quality, training and experience of the staff is something you can do before you start, is it not?
George Beveridge: I agree and we should have done more on that. We should have done more upfront investigation on the capabilities in the supply chain. We did not. We have certainly learned from that and we have put quite a number of our own experts into the supply chain to help supply chain companies, particularly fabricators, understand the standards and make sure they have the capabilities to meet them. We have also developed a new accreditation programme where we are going out and spending several weeks with our experts, with fabricators and manufacturers, making sure they understand the standards and getting them to a level of competence where we accredit them. Together with the NDA, we have also signed up to the Nuclear Advanced Manufacturing Research Centre in Sheffield/Rotherham, which is a Government-sponsored initiative that is aimed at improving the capability and capacity across the whole of the nuclear supply chain.

Q32 Chair: Did you get a performance bonus on this one? Did the company get any performance dividends or bonus? What do you call it—performance fee? Did you get a performance fee on evaporator D?
George Beveridge: The way the fee system works, in 2011–12, we hit one of the schedule milestones, which was to get the first module delivered to Sellafield, so we earned some fee for that. However, that was far outweighed by the cost overrun. We earned about £375,000 on the delivery of the module. We were docked about £14 million associated with the expenditure.

Q33 Chair: You were not; we were—not the company, the taxpayer.
George Beveridge: Sellafield Limited earned about £14 million less last year.

Q34 Chair: But nevertheless earned what, as a fee?
George Beveridge: Our fee for last year was around £54 million.

Q35 Chair: We will come to the way in which you set the performance fees and I am trying to look at that. On evaporator D, where you have the company saying, "We got it wrong on the design. We overdesigned", was that reflected in the performance fee they then got?
John Clarke: Yes.

Q36 Chair: So later on they have delivered a module. Was it reflected? Did they get no performance fee? Let us look at the timeframe. The project was initiated in 2005. Construction started in 2009. When was it clear that you had overdesigned?

George Beveridge: We became aware of significant problems in the latter part of 2010.

Q37 Chair: Right. So 2011–12 we have heard they did get a fee. 2009, 2010, 2011, did they get a fee?
John Clarke: There were small amounts of fee paid for some of the milestones at that point.

Q38 Chair: We will come back to that, because it is a nonsense system of giving a performance fee when there is a clear mistake in design that ends up costing the taxpayer more money, is it not?
John Clarke: But what we have is there are small fees paid, but then, as Mr Beveridge says, there are very substantial penalties applied. So, to date, Sellafield Limited and, through Sellafield Limited, Nuclear Management Partners have lost £17 million of fee that they had earned elsewhere on the site as a result of the deficiencies with evaporator D, and potentially will lose a further £25 million.

Q39 Chair: I put it another way. They did not get a performance fee. They did not lose. They did not pay you or us any money back. They just did not get quite the performance fee they thought they might.
John Clarke: They earned a performance fee elsewhere and then lost a proportion of that fee because of what happened with evaporator D. And they have lost £17 million to date and have the potential to lose up to £25 million going forward throughout the remainder of the project. Clearly, if they can improve performance, that will diminish.

Q40 Austin Mitchell: First of all, I want to thank you for the tour this morning, because it gave us a great opportunity to hold a hearing here in civilisation and outside London, which I am very grateful for. But I think it was a cunning plot to make us more sympathetic to your situation and the Nuclear Decommissioning Authority, because it showed us, I think, what a huge job you have there. It is something that seems to me like a cross between science fiction and a nuclear slum—perhaps the biggest nuclear slum in Europe. There is a huge problem in clearing that up and what worries me is that you have a very difficult job in controlling the costs. The three members of the consortium, the troika, whatever you call them, are all capitalist organisations. They have to make a bob or two. How do we know and how does the taxpayer know that they are not overcharging us for their services? I noticed in paragraph 2.7 it says, "The Authority's assurance was extensive", but "it did not have clear evidence on how Sellafield Limited estimated costs and schedules. The Authority also had no benchmarks to judge proposed levels of performance." "It made minimal comparisons with nuclear projects elsewhere in the UK or internationally to check the validity of the estimates." It also says, in paragraph 2.8, "The exact nature of some of the materials has not been fully characterised" and a further point in that paragraph, "there is not yet sufficient supporting data to provide reliable estimates". And then finally in that paragraph, "The Authority could not determine whether critical paths for completing programmes and projects were correctly identified". Now, how are we to stop the taxpayer being ripped off in that situation where the Authority is not in a position to fully control the costs of the consortium?
John Clarke: At the time that we approved the plan in 2011, we took the judgment that we had done sufficient assurance to enable us to use that plan as the basis for managing the work going forward and incentivising and rewarding Nuclear Management Partners as the parent body organisation. We accepted and acknowledged that we had not checked 100% of the plan—it was an audit—and we had not been able to compare against benchmarks in all areas. So I fully accept that. But we decided that we had done sufficient work to enable us to get started on doing the work and focusing on delivery rather than focusing on endlessly planning. We had spent 2.5 years of planning and we thought we had made sufficient progress to enable us to take this forward.
As we have gone forward we have identified there are some gaps in that plan. We knew there were when we accepted the plan, when our Board signed off on the plan. I took it to the Board, recommending it for sign off, but acknowledging that there were gaps and there were unknowns in that plan. But we thought it was a sound basis upon which we could go forward for the remainder of this contract term, which runs until the end of March 2014. We are using it for that purpose and, to date, I think it is serving us well. We are seeing that we are not always meeting the performance plan. I accept that some of the projects are behind schedule. Of the 14 projects, if you take evaporator D and the silos direct encapsulation plants out, over the period looked at 92% of the scope was delivered for 2% under budget and end dates and budgets were held within 2%—budget and scope. That is not acceptable performance, but I think it shows projects under reasonable control. So there is good progress being made. There is further work to be done and we absolutely accept the recommendation in the Report about seeking to do additional benchmarking and we are looking at that actively now. We are piloting a tool elsewhere in our estate and we look forward to introducing it at Sellafield.

Q41 Austin Mitchell: I draw from that the hope that you are getting better, but the costs can still go up.
John Clarke: The costs may still go up in some areas, as I said earlier, but where we have a firm grip on scope we generally see that costs are able to be held reasonably tightly and schedules are able to be held reasonably tightly. There is further work to do and there are improvements in project management required at the site still; I think George will accept that as well.

Q42 Austin Mitchell: In a sense, this is what you told our predecessor Committee in 2008 and that noted that the lifetime cost of decommissioning of the Authority's sites had risen each time the lifetime plans were reviewed by the Authority, and they are now rising again. You told the Committee then that on the basis of American experience, where the estimated

costs rise and then plateau and then fall, you expected them to follow a similar pattern, but there is no sign of that yet, is there?
John Clarke: There is across the rest of the NDA estate. So if you look at Dounreay, if you look at the Magnox reactors across the estate, if you look at the research reactors at Harwell and Winfrith, that pattern has been followed entirely: where the estimated cost of decommissioning has risen, it has then plateaued and it has fallen. So over the last year or so, £1.3 billion has been taken out of the Magnox decommissioning programme. £1 billion has been taken out of the Dounreay decommissioning programme. But at Sellafield we have not yet turned that corner and we are still on the rising trend. I think that is likely to continue for some time yet, because until we get into the removal of waste from the high hazard facilities—

Q43 Austin Mitchell: You cannot put a date on it.
John Clarke: Anticipated dates for starting those retrievals are over the next three or four years, so the current plan, as we discussed earlier, is that we will be looking to remove materials from the first generation Magnox storage pond in 2015 and 2016, from the pile fuel cladding silo in 2016. The Magnox swarf storage silo, currently scheduled for 2017 or 2018, may slip to 2019 as there are some challenges on that programme. But until we are retrieving that waste there will still be unknowns about exactly how the waste behaves and how the plants behave and until that stage I do not think we will be able to say with confidence that the liability has peaked, plateaued and may then be into reduction.

Q44 Austin Mitchell: Do you want one further question along those lines? Paragraph 1.7 says, "The Authority's ultimate objective is to complete the cleanup of the site and release it for alternative uses by 2120", which is a very long time away. I am worried about the gap between 2034 when you finish the cleanup operation and the Government's estimate that it will have found a geological storage facility by 2040. What happens in that gap to all the material that is at Sellafield?
John Clarke: Over the next approximately 20 years, we believe we will have completed all of the high hazard retrieval and treatment on site. We will have completed the reprocessing operations on site. We will have completed the vitrification of highly active liquor on site and the risk and hazard profile of the site will have dropped off considerably over the corporate planning period that we have of, nominally, 20 years. From that period, we will be into extensive storage of that material pending a geological disposal facility being found. Our planning assumption at the moment is that that facility will be available in 2040. Should that change then we will make changes to our assumptions, but that is the planning assumption that exists with the Government.

Q45 Austin Mitchell: Can you tell us is the active search for a geological storage facility going on? Are you likely to find one or is it just a pious hope? I remember the efforts of Nirex in the 1980s, when they came to Grimsby and tried to persuade us that a nuclear dump would be for the good of our health and people tended to disbelieve this for some reason. It is going to be a very difficult one to persuade anywhere to take a geological dumping site, is it not? Have you found one?
Phil Wynn Owen: Not yet, no, but on your first question about the timescale, I agree 2040 seems a long time away and the Department has asked the NDA to review current plans and advise the Government on options for potential optimisation within the programme that could bring the timescale forwards.

Q46 Chair: What are you looking at?
Phil Wynn Owen: That is why we have asked the NDA to review current plans and come forward with a tighter timetable, if that is credible.
Chair: I thought the NDA was passing the buck back to you.

Q47 Ian Swales: Whenever we hear these very long timescales, one of my questions is: so what is happening this month, next month, the following month, next year? Sadly, I think the real answer is nothing through most of that period. So the real question is: given the issues we have all seen firsthand, is 2040 the quickest you think you can deliver that and are you working on a pace that says we need this and we need it quickly? Is it genuinely going to take 28 years from now, working at your fastest pace, to deliver it?
Phil Wynn Owen: On the long timescale, as I said, we are asking the NDA to see if they can bring the timetable forward.

Q48 Chair: To what? One of you must have in your brain by when.
Phil Wynn Owen: Shall I take the question the other way, because I was also asked the question, Madam Chair, about what was happening this month and next month and that is a very good question, because the long term is made up of a series of short terms. As you may know, our approach is community-led based on volunteerism and partnership. As you know, local authorities nationwide have the scope to come forward and express interest. We have three local authorities in West Cumbria who have expressed an interest and at the moment Copeland Borough Council, Allerdale Borough Council and Cumbria County Council have deferred a formal decision on participation with a view to making a selection early next year, so we really are talking about this month/next month territory here. That is very sensible. They are seeking various information from Government and my colleague here, Mark Higson, could elaborate further on that dialogue if you wish to hear more.

Q49 Ian Swales: When you hear numbers like 2040, that is just the definition of the long grass, as far as I am concerned. If the progress is as you indicate, it is not going to take another 27 years to dig a hole in the ground, test it and use it. This is why, particularly in the public sector, we worry about timescales of this sort and whether it is just a recipe for policy delay or huge sums of money being spent that are not needed.

Phil Wynn Owen: Would it be helpful to bring Mark Higson in to explain what requires to be done between now and whenever that GDF becomes operational?

Mark Higson: Constructing a geological disposal facility is a very ambitious project. Basically, we have to identify a site where a combination of the geology and the engineering ensures that at no time does radioactive material come to the surface to add materially to the background radiation. So there is a phased programme that we have, which starts off at the pace that a volunteer community is willing to go and it is very important that we understand and respect that. It is a very significant decision for a community to decide to go forward to the next stage, which is to examine the geology in more detail.

The next stage is to examine the geology—initially, desk-based studies. The phase after that is then to do on-site investigations. It is extremely important that you conduct those very, very carefully, because we are going to have to prove to the satisfaction of the regulators that the final design does not allow radioactivity to come to the surface in material quantities compared with background radiation, which is obviously very low. So although we have tasked the NDA with doing that faster if they can, the most important thing of all is that we do this right and we end up with a proper facility.

Ian Swales: I am going to leave it after this comment, but for a start, some of those things are not sequential. They do not have to happen one after the other. This is the kind of thing that we suffer from and, in the end, once you have done all that you are just digging a big mine and people know how to do that. Anyway, enough said.

Q50 Chair: No, I do not think we can leave it. I want to get a clear answer. I understand all that, but why does all that take you 27 years? We have heard from Mr Wynn Owen that by 2013 you will have a volunteer authority. You then start doing all your geological investigations and then you have to dig the hole.

Ian Swales: You can still design alongside doing that.

Chair: Even given that, next year they will have a site; this is what we have been told. Why 27 years from then?

Mark Higson: A lot of the time needs to be taken to characterise the deep geology. We are talking about geology at significant depths.

Q51 Chair: What are you talking about, "a lot of the time"?

Mark Higson: Altogether, 15 years.

Chair: 15 years?

Mark Higson: Proving the site. You have to prove the geology. You have to prove the water flows. You have to demonstrate the water does not flow to the surface. It requires extensive drilling. It will cost hundreds of millions of pounds. It is a very big project to identify a suitable site.

Chair: 15 years?

Mark Higson: We have benchmarked that with what is going on in other countries and that is about the same pace, perhaps even a little faster than other countries.

Q52 Chair: Okay, let's accept that gobsmacking time, 15 years. You have 27, so it takes you another 12 years to dig it.

Mark Higson: Then it takes time to dig, yes. That is the time also that the NDA may be able to reduce a bit, by considering very carefully when we know—

Q53 Austin Mitchell: How long is it taking France or the US?

Mark Higson: In the US, of course, they have run into significant difficulties with Yucca Mountain and that illustrates the importance of going forward in co-operation and partnership with local communities. So the early part of the timetable has to be determined by that. It is not a foregone conclusion that Cumbrian authorities will take a decision early next year on going to the next stage.

Phil Wynn Owen: It is worth considering the 15 years. I know it is difficult in this hurried world, but you are talking about 15 years to make sure the geology is right, so you can bury this stuff deep, so it stays there and does not seep out for hundreds of thousands of years, so it can be sealed off without becoming a burden on many future generations. So the timescales do seem extraordinary. As I have said, we have asked the NDA to look at whether they can be accelerated in any way, but I am sure you would be the first to agree with us that we absolutely have to make sure we choose a site that is safe and secure for the long term and not just for a relatively short time period.

Q54 Mr Bacon: How can you rely on record keeping for the next few hundred thousand years to make sure that in two or three hundred thousand years they know where they put it?

Mark Higson: The whole point of geological disposal is that we do not burden future generations with the need to manage the waste. It goes into a geological disposal facility, it can be sealed and then we can be confident the radioactivity remains there. That is the nature of the project, so we do not need record keeping; we do not need active management, which would be required for surface storage over those years.

Q55 Mr Bacon: I know you cannot characterise the geology in detail in an exchange like this. You have just said it will take 15 years and cost hundreds of millions of pounds, so I understand that. But the type of place that would be suitable would presumably be one with lots of, for example, granite, a very hard, impermeable rock, is that right?

Mark Higson: Well, a geological disposal facility could be constructed in a number of different kinds of rock. Granite is certainly a possibility; basement rock is what was chosen by the Swedes, but it is possible to put a deep geological disposal facility into deep clay and that is what the French are contemplating today.

Q56 Mr Bacon: How deep are we talking about, by the way?
Mark Higson: 300 to 1,000 metres.
John Clarke: To Mr Swales's point, we do have now a generic design for a repository and a generic design system safety case approved for a repository, but it can only be generic at this point until we know the location and geology.

Q57 Chair: It is a bit daft, because in 15 years' time all technology will have moved on and no doubt you will be designing something completely different.
John Clarke: It will have to move on to be specific to the geology. It is generic by its very nature at the moment because we do not have a site.
Ian Swales: I do understand the risks, but there is a company right now wanting to build a factory in my constituency. They are going to put a mine that is 1,400 metres deep into the North Yorkshire moors and they are getting on with it; it is going to be done in a couple of years. I think we have probably said enough, but it just beggars belief; as I say, to me, 2040 is the definition of the long grass. It is past all of our careers and I think that feels like the objective of a lot of this sort of discussion—sorry, most of our careers.
Chair: Most of our lives.
Mr Bacon: Austin will be just getting into his prime.
Ian Swales: A lot of this is about value for money, our Committee, and long timescales usually mean piles of money as well and that is something that concerns us.
Chair: Yes, absolutely.

Q58 Meg Hillier: I want to go back a bit to the issue about financial risk, so moving away from this discussion a little bit. Presumably, Mr Wynn Owen, when the whole structure was set up around the NDA and so on, part of the idea was to transfer some of that financial risk away from the taxpayer and pass it on, in a way, to the private companies, the three that are doing the work. From our perspective, as the value-for-money Committee of Parliament, we do see the bills rising all the time and it is not very clear that that financial risk has been transferred. I wonder if you could just comment on that, first of all, and then maybe we could hear from Mr Beveridge about what it feels like from his perspective.
Phil Wynn Owen: There are two big differences brought in and supported by successive Governments. Following the regulator's pressure in 2000, we saw the White Paper in the early 2000s, we saw the Act in 2004 and, as you say, we saw the creation of the NDA in 2005. There are two things that are fundamentally different about the NDA compared to its predecessor bodies, which could well be characterised as some decades of neglect or just managing the risk but not addressing the removal of the hazard for many years. One is that it is focused on decommissioning. Decommissioning is in its title. It does not have a wider ambit. It is not trying to go into exotic commercial markets. Whereas previous bodies may have thought that decommissioning was the last thing they would want to spend the marginal pound on, NDA was given the primary task of decommissioning and legacy. That is fundamentally different.
The second point is that since 2005 successive Governments have made clear, as I explained earlier, both through the Department and through the Treasury, that monies will be made available to not only just manage the risk but also to make preparations to remove the hazard and to get us to a safe and sustainable place in future. Now, of course it is not satisfactory that projects overrun in time and budget, but when we are dealing with the many unique circumstances and uncertainties that the NAO's excellent Report identifies as being there, I do not think we should be entirely surprised if some of the initial projects have gone through that experience.

Q59 Meg Hillier: I think we all acknowledge that public policy failure over many years led to the situation we are in now, but the point is that it is the taxpayer that is funding it. From your answer I am not reassured, particularly where the risk moves from the NDA to the private sector. We have talked a bit about the contract management, but at the moment it seems that Mr Beveridge and his colleagues get a bit of a free pass, in a way.
Phil Wynn Owen: I will ask John to comment in a moment, because he is the expert from the NDA, but on our visit this morning with some members of the Committee we did identify one or two projects where the NDA had been able to pass on risk to the private sector and were within budgetary constraints.

Q60 Chair: One project.
Phil Wynn Owen: As I said, one or two projects.
John Clarke: Encapsulated product store 3.

Q61 Chair: Yes. That was the one where it was a fixed price contract.
John Clarke: Correct.
Chair: Clearly you think, why are you not doing that elsewhere?

Q62 Meg Hillier: That is exactly my point: if risk can be transferred. I want to move on in a moment, with your indulgence, Chair, to some of the wider issues around the money that is spent on this, but more money is spent on nuclear decommissioning at Sellafield than all the Government regeneration budget for the whole of the country over I am not sure what year period. In front of the NAO I will not risk a statistic that might be wrong, but it is a lot of public money and because it is very complicated it is very difficult for us, as lay people, and members of the public to understand that. Because you are all very clever and expert, it is easy for you to say, "It is very difficult" and we all go, "Yes, well, better get on with it", but there are ways of managing difficult projects to pass that risk on to the private sector. So perhaps, Mr Clarke, you could expand a little bit on the examples that I missed this morning. I have been on a visit to Sellafield before, but perhaps you could explain those ones and maybe you and Mr Beveridge could explain how the risk could be better transferred to the private sector, which should be willing to do it because it does it in other sectors.

John Clarke: Okay. I will very briefly start away from Sellafield, just to make a comparison. Within the rest of the NDA estate we have been able to transfer risk to the private sector at site management company level. So at Dounreay we ran a target cost competition. The Babcock Dounreay Partnership was successful in running that. They put in a bid that was £1 billion lower than the existing plan and they are incentivised to at least hit the target cost that they have or beat it. They will make more money by beating that cost and they will lose money by not beating it.

We are in the early phases of running a competition for the Magnox sites and the research reactor sites. We intend to run that on a target cost basis. The reason we can do that is because we understand the scope, we understand the schedule and we have a good grasp of cost. When we ran the competition for Sellafield in 2008 it was clear that we did not have a plan and we did not have a good grasp of scope, schedule or cost and it was very clear that nobody from the private sector would bid on anything other than a cost reimbursable contract. So if we wanted to bring the private sector in, in 2008, we had to bring people in on a cost reimbursable contract. It might have been theoretically possible to have some sort of risk transfer at a site level, but the premium would have been astronomical. As it turned out, nobody would bid. There were six initial bidding entities; two dropped out and the final four would not carry any form of financial risk. And I have to say I would not have done in their position either, given the unknowns.

What we are looking at then is whether Sellafield Limited can pass some of the risk down for specific projects or programmes to the supply chain. Where you have good benchmarking and good data—and EPS3 (encapsulated product store 3) is the example where that has been done—we have seen Sellafield Limited pass the risk to the supply chain. The supply chain has got its fingers burnt, but the taxpayer has not. So whilst the project cost did overrun, the vast majority of that cost was borne by the private sector; they took the risk. Many of the projects that we see at Sellafield still do not lend themselves, at this stage, to significant amounts of risk transfer. So that is really the environment we are in, because of the unknowns. Sellafield Limited are looking, on the silos direct encapsulation plant, at the competition to see whether there is scope for some further risk transfer. Maybe you would like to comment on that.

George Beveridge: Yes, I would. I agree with John. The level of uncertainty across the Sellafield programme as a whole makes it very difficult to pass a lot of financial risk and cost risk to NMP and, as John said, in a competition nobody could assess that risk well enough in order to price it and there was no appetite for taking that on. But we will continue to look at projects, particularly more straightforward projects that are closer to greenfield sites where we can agree either target cost or lump sum cost arrangements. Those arrangements remain in our toolkit and we want to use them where it is appropriate. But in the areas you mostly visited this morning, the very difficult legacy areas, with the level of risk and uncertainty there it is very difficult to pass financial risk and cost risk to the supply chain.

I want to comment on the free pass, because it does not feel like a free pass to earn our fee. We have to work hard to deliver the work for less, so we have to deliver efficiencies and, as it says in the Report, we have booked nearly £700 million in efficiencies, £420 million signed off by the NDA and another £270 million under assessment. So we have to work hard to deliver those efficiencies and then we also have to hit some quite aggressive milestones in order to release payment of the efficiency fee against those. So virtually all our fee is at risk and we have to work very hard to earn it and on some projects where we do not do well, like evaporator delta, we suffer a significant penalty. So it does not feel like a free pass even though we are not taking a lot of financial risk on the cost base.

An important part of running the competition and bringing our consortium in was to bring global capability to Sellafield to work alongside the excellent Sellafield workforce. We have a fantastic workforce at Sellafield, very capable, an asset to the nation and the nuclear sector, but you always have to look at how you continue to improve and how you keep ahead and there were some gaps in performance. We have been working very closely with the team at Sellafield to close those gaps and I think some of the examples you saw on the ground this morning, where there is real activity on the ground aimed at retrieving these legacy wastes, there was no activity on the ground at retrieving waste four years ago. You saw the pipe bridge that had been installed between the first generation Magnox storage pond and the new facility to take the sludge and the significant construction work around the pile fuel cladding silo. So we have made a real impact working with the Sellafield team and bringing some global capability to the site.

Meg Hillier: I do not doubt there is some impact being made. Chair, I do not know if you want me to talk about the supply chain more generally.

Q63 Chair: I was going to talk about the company, but Amyas wanted to come in.

***Amyas Morse*:** I wanted to make sure that I had some possible stake in the ground regarding when we might see the contractual basis changing. I understand what you say, Mr Beveridge and we think you have made headway in a number of ways we have recorded in our Report. But I do think that this is a long contract with a series of renewal dates and if we are holding you gentlemen to account, when will we see a change to a much more risk-shared and clearly benchmarked performance-based budget? When should the Committee be expected to come back, sit down with you and say, "There will really be a material amount of value going through that type of test"?

John Clarke: I think you definitely have two levels. At the site management level, I think we are a long way away from getting any form of realistic risk transfer into the site management company and that experience is borne out in the US where we have benchmarked. We have seen that where they have clear plans and can close sites—Rocky Flats and Fernald being good examples—they let closure contracts with target costs and were very successful. We are doing similar at Dounreay and will do the same at the Magnox sites. Where they have ongoing significant challenges—Hanford, Savannah River for example—they have adopted cost reimbursable contracts, which is their standard model and that is what we have adopted at Sellafield. They adopted privatisation contracts, particularly at Hanford, going back into the late 1990s, everybody got their fingers very badly burnt and they went back to cost reimbursable contracts. So it is the nature of the risk you are trying to transfer. I fully accept at tier two, for individual project work, there is scope to look for further risk transfer and Sellafield Limited, with our encouragement, are looking at that now.

Q64 Chair: I wanted to come back on the company itself. You have 16 top executives from NMS working on Sellafield.
George Beveridge: That is correct, yes.

Q65 Chair: Between them, last year, they cost £11 million.
George Beveridge: Yes, there is £11 million in our accounts. There was a charge of about £1 million from the previous year, so the cost for 2011–12 is about £10 million.

Q66 Chair: That is a lot of money for 16 people.
George Beveridge: It is a big figure, but it is the cost of providing those people into the business.

Q67 Chair: How much do they all earn?
George Beveridge: We are a private company. There are lots of private companies that do work for the Government; they do not all necessarily disclose their—

Q68 Chair: Well, increasingly, our view, I have to tell you really toughly, is that, though you may be a private company, you are working off the taxpayers' pound and it is therefore of interest to us to make sure that the taxpayer is not being ripped off. Therefore we have an interest. When you see a figure of £10 million or £11 million for 16 people, you question whether it is value. At £11 million, it averages to £690,000 per person. That is an average. Maybe there are some secretaries in there, I do not know. It sounds like a lot of money at the top. Who is your top earner? What does your boss earn? He chose not to come today, but I would like to know what he earned.
George Beveridge: I thought we had agreed with the Committee that I would come today, but anyway. In the accounts, the cost of providing the highest paid director for 2011–12 was just over £1.2 million.

Q69 Chair: And how many people earn around £1 million?
George Beveridge: Well, that is a cost; it is not a salary.

Q70 Chair: There are some accommodation costs, presumably.
George Beveridge: We have a number of expats on the team, so there is a standard expat cost as well—relocation, accommodation and so on.
Mr Bacon: You provide accommodation. You provide a house for them.

Q71 Ian Swales: What do the bands show in your reported accounts? How many people are in each of the top salary bands?
George Beveridge: In our report and accounts we disclose the total cost of the Board, the wider executive team and the highest paid individual.

Q72 Ian Swales: So you do not show people in bands. I thought we had to these days.
John Clarke: No. Sellafield Limited complies with the statutory requirements for the total cost of the Board, which is about £5.4 million.

Q73 Chair: How big is the Board?
George Beveridge: There are six executive directors and three independent directors.

Q74 Chair: So it is only the executive directors who get paid. My understanding is that in America there is a cap on what the top executives get paid. Am I wrong about that? I just do not know. Somebody told me.
John Clarke: There is a cap on what the US DOE will pay.

Q75 Chair: Of $750,000.
John Clarke: I believe it is $750,000.

Q76 Chair: So we are exceeding that here in Sellafield.
John Clarke: We are.

Q77 Chair: And how do you justify that taxpayers' money, Mr Clarke?
John Clarke: When we let any of the contracts we did not put in place a cap. What we said was that we would reimburse all of those costs. What the US DOE does is put a cap on it and anything else that is required to be paid upon that is transferred across into a fee payment. So we see the full costs of these employees and, as Mr Beveridge says, that includes salary, bonus, relocation and, for overseas, it includes tax equalisation. They find themselves subject to tax jurisdiction in two areas, so there are some tax equalisation payments. So we see all the costs and we know what we are paying for.

Q78 Chair: I find it very difficult to justify out of taxpayers' money.
John Clarke: We operate in a competitive market and that is what we have to pay.

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Q79 Chair: Let me go on, because out of that reachback costs are £17 million and that we worked out is about £270,000 per person, accepting that that is overall costs including, no doubt, private healthcare, pensions, relocation, what have you.
Mr Bacon: Dog-walking service.
Chair: Dog-walking service. These are shocking, shocking figures for a poor economy here in the north-west.
George Beveridge: With reachback, you have to look at the other side of the ledger as well and the benefits that reachback brings. It is a cost and it is a significant cost and it is not a reflection on our workforce. As I said, we have an excellent workforce, but there are some gaps that we need to plug to bring the level of performance at Sellafield up to that that we see amongst our peers.

Q80 Chair: Again, I was looking at averages. How many people there are around the million mark?
George Beveridge: In reachback, probably none.
John Clarke: The highest cost we pay on reachback is £599,000 a year—the total cost of the employee.

Q81 Mr Bacon: They are still extremely high salaries. How many people are there in the world whom we would want to employ who understand this stuff? Do you know? You said it is an international market. The number of people in the world who must know enough about how to do this is, presumably, fairly limited, is it not?
John Clarke: It is not a huge market that we are fishing from, but what we have done is we ran the contract at Sellafield and we ran it on the basis of buying in the best international expertise we could find. There were four either individual companies or consortia that bid and the winning bid was Nuclear Management Partners, a consortium of URS, AREVA and AMEC. And what we are buying from the executive team and reachback is individuals with the corporate capability behind them. So, yes, we pay good rates for that and we pay significant numbers for that, but what we are bringing in is the individuals and the capability of the organisation behind them.

Q82 Chair: We hear that. That is what you are bound to say and it is all promise, but we look at three out of 14 being on time and budget. I accept all the difficulty. We saw the difficulty firsthand this morning of some of the challenges that you are facing, but nevertheless paying this sort of money with this record to date just leaves you wondering, doesn't it?
John Clarke: And I am not yet satisfied with performance at Sellafield and I would be surprised if Mr Beveridge is.

Q83 Chair: So why have they then got £54 million in fees?
John Clarke: Because a number of things have been done in accordance with the contract that we have.

Q84 Chair: Does that not say a lot about your contract?
John Clarke: We are looking for a whole suite of activities to be undertaken. The NAO Report acknowledges that it only looked at about 25% of the total spend on the site; a very important 25%, but nonetheless there is 75% that was not really looked at. There are a number of activities going on in those areas that are making good progress. There have been some improvements in stability of the operating plants. There has been the maintenance of safety and some improvements in safety. A number of activities are going well on the site and probably the most important thing that we have had so far is the establishment of a plan. I know I keep coming back to it, but in the absence of a plan you cannot make the key strategic decisions that we have been able to make.

Q85 Chair: I agree, but the plan is still open to question. It just strikes me that you have £54 million that they got in their fees, which they then pay out in dividends. You have spent £28 million on salaries. If you cut that, you would increase the amount of money you had available to spend on projects on site.
John Clarke: We would.

Q86 Chair: Just very crudely, would the money not be better spent here? That just seems a heck of a lot of money.
John Clarke: It is a lot of money.

Q87 Chair: Unjustifiable money.
John Clarke: We think at the moment it is justified in terms of bringing in the international capability to make a difference.

Q88 Chair: The final bit of this series of questions is that the company has awarded itself contracts to the tune of £54.4 million in this year, 2011–12. And that looks to us, here, a little bit suspect. So, the company earning a great big whack out of this hugely important endeavour then gets 6% of the business that is taking place on the site to decommission nuclear waste.
John Clarke: The arrangement we have on all of our sites is that the managing contractor is not disbarred from competing at tier two.

Q89 Chair: Why?
John Clarke: That is an arrangement we put in place from day one to make sure that we opened up the market to the widest possible range of people at tier two. What we do do is we place requirements on Sellafield Limited to make sure that they do not preferentially feed their parents. We examine in particular detail every contract that is let to one of the parent companies.

Q90 Chair: It is just wrong. It just feels wrong. Maybe the Comptroller and Auditor General wants to comment on this; I do not know what Chinese walls are pretended to be placed there, but their companies will inevitably have a competitive advantage when bidding for that fee. It just strikes me as being an inappropriate way in which you then tender and commission work on the estate. Doesn't it?

Amyas Morse: It is not impossible to have a system and make it work properly. It might not sound like very warm comfort, but it is not impossible to do it. However, you do need to be very rigorous. I know I am telling you something I think you understand well, Mr Clarke, but in particular, we shall look very interestedly at the framework contracts that you have coming up. 6% is not an enormous share, but if those major contracts were being decided in a way that was favourable to the managing company, you will understand that would inevitably raise some very pressing questions.
John Clarke: Absolutely.
Amyas Morse: I am not saying it could not be done, but you would have to have very, very good evidence for that. So my comment is I do not think it is impossible, Chair, but, so far, we are talking about a quite small amount, and there is a lot bigger stuff coming down the road and we really need to be very clear about how that was done. I am sure you would want that yourself.

Q91 Chair: My final question on this: it is not as if there is a lack of contractors willing to do this work. It is not as if you have a limited range of people who could compete, is it? Looking at the names around the site, most big construction companies would like a slice of the action. In this particular instance I cannot understand why you allow the commissioner to commission themselves.
John Clarke: That is a decision that we took in the early days.

Q92 Chair: You took or the Department took?
John Clarke: We took.

Q93 Chair: Why? I just cannot get it. I do not understand the rationale for it. I would be unhappy with it, but I could understand if there was a small selection of contractors who might be interested in the business.
John Clarke: At the time it was done, it was not felt necessary to do it as long as we had sufficient controls in place, which we believe we do, to make sure that they are let fairly and appropriately. I believe it is the case in the US that they have an arrangement where the managing contractor can also bid at tier two, so it is standard practice. We looked at what was done in the US, we benchmarked and we followed suit on that. Now, as we move forward, who knows? Maybe we will look at something different, but I take your point entirely in the perception of it.

Q94 Ian Swales: Just to pursue this a little bit further, one of the reasons for the Committee's concern is that on the one side we have this, I suppose, giant hole in the wall, if you like, that you stick your card in, called the taxpayer and, on the other side, the Committee's concern is about what the real pressure and motivation is, both on timescales and on cost. We recognise that this is a difficult area and that we are not likely to hear the conversation that we have just found the cheapest person in the world to do this dangerous piece of work. We do understand that this is not that kind of thing. But can you just say more about how contracts are negotiated? Who is around the table? I note your deep experience in the industry, but how much expertise is on the taxpayer side of the table and how does it work, particularly given what the Comptroller and Auditor General just said about the forthcoming big contracts?
John Clarke: For the site management contracts, we have just started the negotiations for what happens from 1 April 2014, which is the completion of the first contract term. So we have established our team and Nuclear Management Partners have established their team. On our side we have a number of people from within the NDA, some of whom have experience of the nuclear industry, some of whom have public experience, some of whom have private experience from the contracting side. We have also engaged independent legal expertise and independent financial expertise, so we believe we have a significant team on our side looking to negotiate the next contract term.

Q95 Ian Swales: Sorry if I sound as though I am working at ABC level here, but the NDA is negotiating with whom at that point?
John Clarke: With Nuclear Management Partners Limited.

Q96 Ian Swales: To bid for the overall work on the site.
John Clarke: The contract that was let in 2008 was a 17-year contract with a five-year break point and then, potentially, five years, five years and two years. It was envisaged as three five-year terms and then a two-year term to enable you to re-compete. So what we are doing at this point is, first of all, looking at if Nuclear Management Partners has met the minimum performance standards, which enables us to roll over. If they have not met the minimum performance standards, they are not eligible to roll over into the second contract term. If they have, what would we seek to do differently in the second contract term to get a better outcome? So what better incentivisation would there be, within the bounds of the competition that we ran in 2008? Because we cannot step right outside of that; we have got constraints within which we competed. What changes would we make to the contract, what changes would we make to the way in which we operate in order to get better alignment and a better outcome?

Q97 Ian Swales: I think this is the key point I am driving at: what sort of visibility do you have, what line of sight through the umbrella contract into all the various activities and subcontracts and so on, or do you have none?
John Clarke: No, we have sight of all of them.

Q98 Ian Swales: So it is open book.
John Clarke: Yes. All of the contracts let in Sellafield's name, all of the correspondence and negotiation between them, are open to us.

Q99 Ian Swales: So if I was to say that, therefore, you have a pretty clear idea of what profit is being made on these contracts.
John Clarke: Yes, we do.

Q100 Ian Swales: It would be true to say that.
John Clarke: Sorry. It is difficult to say what profit individual tier two corporations are making. We can see what they are being paid for.

Q101 Ian Swales: For example, if there is a crane hire contract, you may not have the time, but do you get into how many companies bid and what did it look like? Are you seeing things at that level?
John Clarke: We are and we are looking at a greater level of detail than we did in the past. As a result of evaporator D we have made a number of changes. We now have detailed project reports, detailed programme reports. We have established a project and programme review group, modelled very much on the MPA, to really get into the detail of how these projects run. We look at the number of bidders, the type of bidders, short-listing, award criteria, etc.

Q102 Ian Swales: Based on your experience so far, are you looking to put any new clauses or ideas into the next round of contracts?
John Clarke: Yes, we are looking at a whole range of options. The first key thing we are looking for is a greater degree of alignment; that is, alignment from Government policy through the NDA, through the parent body, Nuclear Management Partners, Sellafield Limited, the supply chain, the workforce, everybody. The second thing we are looking for is a real improvement in overall leadership of the site, and we are working now: we have explained the outcomes that we want as part of the early negotiations and we are into the detail of those discussions now.
Chair: This is the leadership you are paying £11 million to.

Q103 Ian Swales: The last point then, just on the timescale issue, because we have gone into that in various ways: do you believe that Nuclear Management Partners and others—and I am thinking about money-making and profitability here—have a vested interest in longer timescales, a vested interest in shorter timescales or does it not matter? I am talking about how much money they make.
John Clarke: The contract as currently written encourages them to do work quicker and for lower cost and, by doing that, they will earn more money. We are looking to make sure that we modify that, as appropriate, to bring even more incentive about.
What I would say, just as a final comment on that, is Nuclear Management Partners are earning about 3.5% of the total expenditure on the site. That is about half the average rate of earning in the US. So if you compare the amount of money that is earned on the US sites as a proportion of the spend on the sites, it is significantly lower in the UK.

Q104 Ian Swales: And they have a vested interest in making the next tier work quickly and effectively.
John Clarke: Absolutely; by doing so, they reduce their costs and bring in the timescales and are more efficient.
Ian Swales: That is a good answer, because one of the problems we have as a Committee is if you think about things like management consultants, there are many people who deal with the Government who effectively make more money the longer things take. It is good to hear that is not the case here. Thank you.

Q105 Meg Hillier: I mentioned earlier about the vast amount of money going into this area and if you look at paragraph 3.11 and 3.12 of the Report, this is about the supply chain and, to be fair to Mr Beveridge, you did acknowledge earlier that you had overestimated what the supply chain could bring. I am concerned to see, apart from the 9,231 staff employed directly on the site, what other jobs are created as a result of these billions of pounds of public money going in and what Sellafield Limited in particular is doing to make sure that this supply chain is effective, local and basically creating jobs out of these billions of pounds of taxpayer investment, if we look at it as partly investment, which I think it is.
George Beveridge: We take very seriously our community responsibilities in Cumbria and West Cumbria, so the success of the local supply chain is clearly something that we are very interested in. It is not something that we are solely responsible for, because we are predominantly the customer for that supply chain, so we cannot simultaneously be on this side of the table as the customer and round the other side of the table helping them to win the work. But we are very keen to work with local partners to support the development of local suppliers. There was some work published earlier this year by the University of Cumbria that showed that, from our total supply chain spend, a little over 30% is captured in the wider Cumbria area. When you benchmark that with other large sites, there are not too many large sites like Sellafield so it is a small number of benchmarks, but it tends to be more in the 15% to 20% captured. So the fact that we are up at 30% is quite good, but I am sure we can always do more. What we are committed to doing is working with local partners, particularly the Britain's Energy Coast organisation, which is the main economic development agency in this area, which we are a partner in and we help to fund, as well as the local authorities, and everyone in West Cumbria and Cumbria who has a role to play in this. Local authorities have a role to play; economic development organisations have a role to play; we cannot do everything. We can do our bit and we want to, but we have to work with partners to make that a success.
If I can just add, I have another hat: I also chair the Local Enterprise Partnership—the LEP—for Cumbria. Some people are fans of LEPs, some people are not, so I do not particularly want to go there, but from my experience of the Cumbria LEP there is an entrepreneurial deficit in Cumbria. We have quite a lot fewer start-ups than the national average. When they do start up they last longer, so our survival rates are longer, but the level of start-ups is less and I think

that is a history of some large organisations like Sellafield being around and perhaps not quite smothering the local supply chain but inhibiting the entrepreneurial spirit. So we want to do what we can with local partners to make sure we try and tackle that.

Q106 Meg Hillier: It is easy to say, harder to deliver and I do see that there are challenges, in a way, but if you are the contractor, and also John Clarke of the Nuclear Decommissioning Authority and, to a degree, the Department, what is written into your contracts when you are subletting them that requires you to do anything local? It is taxpayers' money. It is the Government managing that taxpayers' money. Is it not within the wit of man or woman or Mr Wynn Owen to make sure that those contracts include requirements that there is some local job creation? I say "local" job creation, but this is billions of pounds of money; UK plc job creation would be good.

George Beveridge: I will start, and then Phil might comment on it from a policy point of view. Our contract does require us to develop a socioeconomic plan annually and agree that with the NDA and we do that and there is about £3 million available through our contract to do that.

Meg Hillier: Did you say "billion" or "million"?

George Beveridge: £3 million, not billion.

Meg Hillier: I was going to say that would be very good.

George Beveridge: We invest £3 million a year, largely through the Britain's Energy Coast organisation. There is nothing in the contract for this, but NMP also invests, completely on its own, £4.5 million a year into local socioeconomic benefits and again we commit most of that, about £4 million, to the Energy Coast and about £500,000 to the Cumbria Community Foundation.

Q107 Meg Hillier: Can I ask how you measure the success of that? If that money is going in, how are you measuring what the outputs are?

George Beveridge: That is a very good question. We are a partner and have board members in Britain's Energy Coast and that is the main vehicle for stimulating economic development in the area. We are working with the Energy Coast organisation and they have developed a blueprint that sets out quite an ambitious plan for the development of West Cumbria, including how we will measure that. The first implementation plan associated with that is due very soon, so we want to support that and we definitely want to see some good measures against that.

Phil Wynn Owen: I have a few relevant points that might be helpful to the Committee. First of all, DECC is planning to publish a strategy document early next month on the supply chain for the whole of the nuclear industry, because we do see both the decommissioning industry and the new build industry as potentially very important drivers to growth going forward.

Secondly, we all now, from ourselves through to the NDA, have our own SME champions in DECC—it is an official called David Wilson—who are driving the agenda.

Thirdly, as you may know, the Government has a policy of a quarter of contract value going to SMEs by 2015 and Mark might wish to expand further on the progress we are making towards that. So, over time, there is a lot of pressure being brought to bear in this area.

Q108 Meg Hillier: Let's say I have a small business in, for argument's sake, West Cumbria with some technology or maybe a former employee of Sellafield, because there will be a drop off in employment. Where does the support come in to ensure that some of that expertise is not lost, and does not, perhaps, go off to America; that it is home developed and becomes a business that creates jobs in a part of the UK that desperately needs better jobs and perhaps develops other supply chains within the UK or certainly within Europe?

George Beveridge: What we have been able to do in West Cumbria, again through the nuclear partners largely funding the Energy Coast organisation, is that Energy Coast have been able to keep going some local business support. Business support structures across the country have largely fallen away as things have been centralised and the RDAs have fallen away and stopped funding a lot of local business support. We have been able to keep a level of business support going through the Energy Coast organisation, so there is a business support organisation there. More widely across Cumbria, we are also working with other partners to set up business support. The problem is we do not have enough people coming forward with the entrepreneurial ideas in the first place and it is them that we need to find and hook out.

Q109 Meg Hillier: This where I hit problems. There is lots of money put into Energy Coast and so on and it is all very well, but you might need to be found as an entrepreneur. Not everyone always comes forward. I worry that the big mothership that is Sellafield, because of the good wages, smothers that innovation and you need a bit of both. It is good that there are good skilled workers at Sellafield, but some of those good skilled workers could be the businesspeople for not just the future, for the decommissioning, but some of the things that happen on the site dealing with difficult, hazardous waste in different ways could be applied to other sectors. The Energy Coast is partly picking up on this, but we also have the rest of the energy sector, so some of the technical and engineering skills are ones that could be applied elsewhere. I wonder what read-over there is outside of the nuclear industry, because that is the real prize, isn't it, of this money going in? It is creating businesses that could then grow into other things and I just do not see it. Okay, we are talking to you about nuclear, that is your expertise, so perhaps I am being unfair, Chair, but I do think that this huge amount of money should be generating more than just the nuclear decommissioning. Sorry, Mr Clarke, to say "just the nuclear decommissioning". I appreciate that is a big job in its own right, but there is a potential and I think, as a taxpayer myself, it should be realised.

John Clarke: I will just give a very quick example. You mentioned about ex-employees setting up businesses. There are two ex-employees who have set up businesses in the local area over the past few years that are now extremely successful. They are winning work in the UK and elsewhere and representatives of both of them are in Japan this week, partly sponsored through Britain's Energy Coast.

Q110 Meg Hillier: That is two out of 9,231 staff on site.
John Clarke: I am simply using it as an example.

Q111 Meg Hillier: Okay, so not two in total.
John Clarke: I am not saying there are only two, but I happen to know of two specific examples of ex-employees of Sellafield.

Q112 Meg Hillier: Do you know how many people they employ in turn? Have you any rough idea or can we find out?
John Clarke: One employs about 100. The other one I am not sure, but has 40 apprentices working for it now, so not a small organisation. But they are both out in Japan this week, along with help from Britain's Energy Coast Business Cluster, looking to see whether there is support that can be offered to Fukushima, to Tokyo Electric Power Company on the back of that. So I think we are doing things to try and grow that.
Equally, last week, we had a supply chain conference from the NDA, which 720 people attended, where we can lay out, together with Sellafield Limited and the other licensed companies, "This is the work coming up, this is where you can get more information. This is how we can help you bid for this", but "help you" in an open and transparent sense, not "help you" as an individual company, which would be in breach of OJEU requirements. We operate openly and transparently, but we are offering as much help as we feel we can at this time.

Q113 Meg Hillier: As an aside, Chair, it is always interesting that the French manage to get French companies to deliver things despite OJEU. Mr Higson, you deal with SME support through DECC. I always worry, to be perfectly frank: I am sure you are brilliant civil servants and I do not know if you were in business before, but Whitehall as an entity does not always understand the needs of business. How can you convince us or can you be honest and tell us what needs to be done to make sure that this kind of level of public investment does not just stop at the first task but is something that ripples out and creates wider benefits to the taxpayer?
Mark Higson: An important point I would make is that the nuclear industry is demanding. It has very demanding standards, so we not only want top down pressure to persuade people to use the UK supply chain, but we have to build the capability in the supply chain. There is no point employing companies that are not up to the job. So our nuclear supply chain action plan, which, as Phil Wynn Owen said, will be published next month, will cover a large number of things. It has set out a comprehensive strategy to encourage businesses to make the investment to meet the nuclear standards. It is aimed at ensuring there is greater awareness of the opportunities in the nuclear industry, particularly with new build coming along. It is building confidence that those programmes will go ahead. It is persuading the NDA and companies like EDF and the other consortia to set out what they are doing when, to establish a clear sense that there is a pipeline of work coming forward, which will enable companies to feel confident enough to make the investment.
The Government, through the Department for Business, Innovation and Skills, is also setting up things like the Nuclear Advanced Manufacturing Research Centre, which is a place where supply chain companies can start to demonstrate their capabilities and skills and get fit for purpose.
Skills is a very important element of this. Skills primarily are the responsibility of employers through training boards, which prevents there from being freeloaders, so there is a real incentive to invest in skills. But there is also a role for the Government and I notice that the Department for Business, Innovation and Skills has launched a £250 million Employer Ownership of Skills Fund. To take one example, that Fund is being used to train 645 specialist welders. As you are aware, welding was an issue that came up in connection with evaporator D as being an area where there was insufficient ability to deliver. So it is not only just getting the supply chain to get the contract, it is putting them in a position where they are capable of delivering what is required.

Q114 Meg Hillier: What is your ambition for what added value we can get out of this taxpayers' money in terms of jobs, businesses or contracts that come to West Cumbria and to the UK as a result of these billions of pounds of money going in to the NDA?
Mark Higson: We do not have a figure that runs across that, but for new build we were in deep discussion with Hitachi to encourage them to set out their ambition. Their ambition was to ensure that 60% of the work required on new build goes to the UK supply chain.
Meg Hillier: Chair, it might be worth thinking as a recommendation that the Department does have a bit of a target for what could be created as benefits on the side of this NDA investment.
Chair: Okay.

Q115 Austin Mitchell: I just want to follow up Meg's point, because it is an important one. When it comes to jobs and contracts you are like a whale in a jam jar in this area in terms of the prospects you can give to the area. From paragraph 1.12, of the £986 million spent on subcontractors in 2011–12, I see that just over half went on professional services, such as technical design and modelling. When I went around Whitehaven yesterday, I did not see all that many nuclear design shops, just as I did not see any wine bars, restaurants, Starbucks or pizza places where I could get something to eat. In fact, the pub I went into had even run out of crisps. Clearly there is a search for occupation and work in Whitehaven, but

both Copeland Council and the County Council have complained that subcontractors, local small businesses, find difficulty in accessing contracts at Sellafield. Why is that?
George Beveridge: We have set up a framework to work with local authorities and other partners to try and increase the visibility of work that is available at Sellafield. A lot of the work does not necessarily come directly from us; it comes from large tier two suppliers. So we have been working with our tier two suppliers to encourage them to be very open and engaging with the local supply chain. Just recently, we announced a new infrastructure contract, Infrastructure Strategic Alliance, at Sellafield with Morgan Sindall and Arup, who are going to be working with us on supporting the development of the infrastructure at site. We had a launch event with them a few weeks ago. A lot of our local suppliers were at that and we have heavily encouraged those companies and others to engage with the local supply chain, to give them full visibility and therefore opportunity against the work scope that is there. It is not about entitlement; it is about opportunity.

Q116 Chair: Out of interest, how many of your tier two are UK companies? It does not necessarily follow, but just out of interest.
George Beveridge: Most of them are UK registered. I could not tell you if it was 100%. It is probably not 100%, but I would say the majority are UK registered.

Q117 Austin Mitchell: 6% of the subcontracts at Sellafield go to subsidiaries of the troika, the three participant firms. John Clarke, are you going to review that and kick some of those contracts in the way of local businesses? Are you going to reduce that 6%?
John Clarke: As we discussed earlier, we can look at whether it is appropriate to continue allowing people at tier one to bid at tier two, but the current contracts allow that, so for us to suddenly renege on that would be acting outside of the contract. Whether that is something we could look to change in the future we could look at. But the real issue is that we are committed to doing as much as we can for local organisations.
To your point about where are the design houses, interestingly, there was an awards ceremony here just two weeks ago for the West Cumbria Business Cluster and the winner of the Small Business of the Year was a high tech design house set up by two individuals. The awards were in the main auditorium through there. So there are people setting up businesses, but it is the fact of the matter that, for historic reasons, the bulk of the design and analysis work is not done local to Sellafield. Dating back to BNFL, there was a headquarters for that in the Warrington area and a substantial amount of it is still done there for historic reasons.

Q118 Austin Mitchell: One final question for the Decommissioning Authority: you do not report externally on the performance of your major projects. Why not? Why is it all internally reported? Surely all this needs to be reported externally so that we and the public can have some idea of what is going on, how successful you are, where the weaknesses are and what the problems are. Why do you not report externally more?
John Clarke: As you know, we report upwards through our Board and into the Department on a monthly basis in great detail. We are committed to openness and transparency in our external reporting. Where we have reported to date has been on what we call our corporate targets. They are the targets that we set over primarily one but up to a three-year basis with the Department, which is, if you like, our contract with the Department for what we are going to deliver. We report on those, updating them quarterly on our website. We are very happy to look to see whether there is more and better reporting that we can do. I am aware, through discussions with the Department, that there is work going on with the Major Projects Authority looking at if there are better things that other Government Departments can do to make greater openness and transparency and we are happy to work with them.

Q119 Chair: So is the answer, which will become a recommendation of ours probably anyway, that you are going to insist on some of the major projects and particularly the risk project being looked at by the MPA?
Phil Wynn Owen: As you may know, there are two answers to that question. First of all, at the generic level, the MPA and Government Departments are considering—and it is a Cabinet Office and MPA lead—how best the Government itself may improve transparent reporting on its major projects performance over time. Within Government, I think David Pitchford or his Minister will be writing round around the turn of this year with a view to making improvements in cross-Government reporting possibly by as early as spring of next year, 2013. Clearly in the light of how the MPA and Government Departments then improve both the aggregate and the several on departmental websites reporting on major projects, the NDA will want to consider what they might do to improve their own reporting, both in the light of your helpful Report from the NAO, any further recommendations you make and any changes central Government have made themselves.
I think the second point you touched on is a separate one, which is whether the NDA's project should be part of the MPA's major projects portfolio. At the moment, some are. Of those major projects that are run by the NDA themselves within their £3 billion portfolio and have significant value or reputational risk, the Dounreay Parent Body Organisation competition and Magnox Research Site Restoration Limited PBO competition, for instance, are in DECC's portfolio of 12 Government major projects and are reviewed by David Pitchford and his team. But the MPA have made very clear that their ambit does not currently cover the performance of third party contractors, so on the sort of projects and programmes we have been discussing today, where there is a contractor such as NMP appointed, the reach of the

MPA does not currently extend down through the public body.

Q120 Mr Bacon: I do not understand that, Mr Wynn Owen, because the MPA has looked at the West Coast Main Line, has it not, and that involves private sector contractors?
Chair: Or, indeed, your NHS IT.

Q121 Mr Bacon: The National Programme for IT in the Health Service involves the use of private sector contractors.
Phil Wynn Owen: It is not my patch, but I believe the MPA will have reviewed the Department for Transport's handling of their contractual end of the West Coast Main Line, but I might be wrong.

Q122 Mr Bacon: In relation to the National Programme for IT in the Health Service, they got directly involved in the negotiations between the Department and the contractors such as CSC—Computer Sciences Corporation—who took over the Accenture contract and so on.
Phil Wynn Owen: What I did want to say was I think you raise an interesting point about the degree of the reach of the MPA into major projects and in the light of the NAO's findings, the DECC Chief Operating Officer wrote to David Pitchford asking him to consider it.

Q123 Mr Bacon: Who is the DECC Chief Operating Officer?
Phil Wynn Owen: Wendy Barnes.

Q124 Mr Bacon: And Wendy Barnes wrote to David Pitchford.
Phil Wynn Owen: Following your Report, asking him to consider whether or not it would be appropriate for the MPA to do something of this sort in terms of extending its remit. I have spoken to him too. He has agreed to reflect on this. I think he may have spoken to the Chairman of your Committee. He himself is considering how best to respond, and in what ways, to a separate Report you have produced on the role of MPA's major project assurance across the piece.

Q125 Mr Bacon: It may be that even in his extensive Australian vocabulary—schemozzles and doozies—he cannot find words adequate to describe the mess that is up here. That may be one of the things that is worrying him. But what I find difficult to understand is that you have said there are some projects here, within the NDA portfolio, that the Major Projects Authority is looking at. So there are things within the NDA portfolio deemed suitable for the oversight by the Major Projects Authority and yet we heard from Mr Clarke earlier that the NDA's number one priority is Sellafield. That is what it lives and breathes for, in a sense, in terms of its priorities and, within that, these cleanup projects, and yet the MPA is not there.
John Clarke: The MPA or its forerunner, the Office of Government Commerce, did overview the competition for Sellafield.

Q126 Mr Bacon: When you say "the competition for Sellafield" you mean the competition that led to the appointment of Nuclear Management Partners.
John Clarke: Correct. To date, the Major Projects Review Group, the Office of Government Commerce and now the Major Projects Authority have reviewed the competition that we ran for the management of the low level waste respository in West Cumbria, the competition we ran for Sellafield, the competition we ran for Dounreay and they are now reviewing, and have reviewed all the steps up to the initiation of, the Magnox competition. We are just about to start an OGC Gate 5 review of the Sellafield contract, benefits realisation, as part of the MPA. So they do look at those projects where we are the SRO. As you move into projects run by the licensed companies, we are not the SRO and we are not the contractor.

Q127 Mr Bacon: This is interesting and leads into a question I was going to ask about skills, because you were talking about skills earlier. One of the things the Report says, in paragraph 2.16, is that "the Authority identified a lack of evidence to support using reachback resources". So you have this new contract with Nuclear Management Partners Limited and that enables them to bring in people through the 16 executives, the highest level in terms of cost, and then the reachback, which itself can be pretty high cost, without being able to evidence why they are doing it. Now, if the MPA is going to be looking at benefits realisation, would you not expect that to be one of the things that they would want to examine? Why, on what basis and when is Nuclear Management Partners undertaking reachback? Because it is not obvious why at the moment.
John Clarke: I am sure that is something that MPA will look at in the Gate 5. What stands behind that comment is that there are many options available to Sellafield Limited when they are looking to bring in additional resources.

Q128 Mr Bacon: I thought you said you were not fishing in a very deep pond.
John Clarke: They can look to develop resources already existing within Sellafield Limited. They could look to recruit directly into Sellafield Limited. They could look to go to the supply chain or they could look to draw on reachback. The comment in paragraph 2.16 reflects that we struggled for some time to get an adequate description of why reachback was being used on occasions as opposed to other potential sources—

Q129 Mr Bacon: The obvious conclusion is it is the easiest one and it gives them the use of their own resources.
John Clarke: And what we are looking for is to make sure that they are not using the easiest and most attractive; they are using the optimal resource.

Q130 Mr Bacon: And your solution to this, in August 2012, is to improve governance arrangements by producing a reachback deployment strategy. How is your reachback deployment strategy going? It has

been here now for three or four months—August to November. How is it going?
John Clarke: Well, it is Sellafield Limited's reachback deployment strategy.

Q131 Mr Bacon: Oh right, that is them. That was their response to you, I am sorry. So the question should be directed to Mr Beveridge. You asked them to do more in terms of evidencing it.
John Clarke: To give us clarity, and what we have asked for is when each reachback person is brought in we want to see what the need is, what options have been considered and why this person is the right person to bring in.

Q132 Mr Bacon: And have you been seeing that?
John Clarke: We have been seeing that recently. We were not seeing that sufficiently clearly in the early stages and I would expect the MPA to look at that.

Q133 Mr Bacon: Mr Beveridge, I am sorry, I should have really directed that question to you. How is your reachback deployment strategy going?
George Beveridge: I think it is going very well.

Q134 Mr Bacon: That slightly reminds me about that question that that *Star Trek* person asked about the thing that nobody understood in nuclear fission. No, no, I will not go there. But you would say that, wouldn't you? How many instances have there been under this new strategy, since August 2012, where you have had to report back to the Authority who, what and why and give some evidence of the reasons for it? How many times has that happened?
George Beveridge: Well, we have increased the number of reachback folks from last year by about 40. That is people who have come and gone; some people have left.

Q135 Mr Bacon: People come in for a short time, possibly, for a few weeks.
George Beveridge: Well, it is very variable. People come for as little as two or three weeks if they are doing a review. If there is a more substantive task to do, they could be here for a year or maybe slightly longer. Very few people are here for much longer than that. So it is pretty variable and the length of time they are here is tuned in to the task or the review that they are doing.
We talk about the cost, which is important, but on the benefit side of the ledger, I will just give you a couple of examples. We talked about the evaporator D project and we need to build a new evaporator, primarily because the three existing evaporators we have are reaching the end of their lifetime. We mobilised a team of reachback experts, particularly from AREVA and URS, to really look at the operating strategy for our existing evaporators and we have been able to, with their help, modify that strategy to help those evaporators operate for longer and give us more risk mitigation, if you like, which is a very significant operational benefit. On the pile fuel cladding silo that you saw this morning, I think you went to the top of it, you heard from some of the folks there about the changes in cutting the holes in the wall. The plans we inherited were very complex, cutting lots and lots of holes in the wall, involving very large modules. Again, with the help of reachback we have simplified that dramatically and taken about £100 million out of the cost.

Q136 Mr Bacon: This is where you had that one big panel and you said, "How would you have done this were it non-nuclear?" and then you extrapolated that.
George Beveridge: Yes, exactly right.

Q137 Ian Swales: I would like to talk about the efficiency savings that are being achieved. They are mentioned in the Report at paragraphs 2.14 and 2.15. It talks about an efficiency saving of £1.4 billion against the contract baseline over the period to March 2014. Can you say more about how you think that is being achieved, particularly as it seems at odds with everything else we are hearing and also tables 11 and 12 in the Report, which seem to show higher than expected costs? So where is this £1.4 billion coming from?
John Clarke: There are higher than expected costs on some of the projects, that is certainly the case, but one of the key measures that we put in place, not just at Sellafield but across the whole estate, really following your 2008 review, was a drive to reduce the support and overhead cost on the site. We put in a target to reduce those costs by 25% over four years. Sellafield is ahead of schedule in reducing those targets. The whole estate is on or slightly ahead of schedule for reducing those. So that is about moving people from, as it says, support and overhead activities into frontline activities. That is an efficiency in terms of getting more work done. So efficiency is, ideally, doing more for less. In reality, it turns out to be doing quite a lot more for quite a lot more. We are increasing spend on the site.

Q138 Chair: Just tell me, are you going to achieve the total £1.4 billion?
John Clarke: No, I do not think we will achieve £1.4 billion.

Q139 Chair: You see, what struck me reading this bit is you do not tell somebody, "I want £1.4 billion, but I will give you a performance bonus if you only reach 80% of that", because the 80% becomes the figure.
John Clarke: Well, £1.4 billion was the number offered by Nuclear Management Partners as part of their bid.

Q140 Chair: Then why did you not say to them, "£1.4 billion and then you will get the performance bonus"?
George Beveridge: If I can help there, the reason behind that was, during the competition phase, we were asked to put all our ideas on the table, everything we could possibly think of that could contribute to efficiency at Sellafield. And there was a recognition that not everything comes home. You do not get to absolutely 100%.

Q141 Chair: I have to say to you, Mr Beveridge, most Government Departments are cutting their back office costs—which is, in effect, what this is—by 33%. You were asked to do it by 25%. You were not asked to do it by 25%; you were asked to do 80% of 25%, which is 20%, 21% or whatever, so it is just a daft way of doing the business.
George Beveridge: Well, I do not think so. If we just look at our overhead costs, we had a target of achieving 10% savings last year, 2011–12. We achieved 15%, which is about £57 million out of a baseline of £385 million. This year, we are on track to achieve our target of 20%. This is support and overhead costs. Baseline is £385 million, so we will deliver about £77 million capital saving this year from overhead that can be directed to the frontline rather than support and overhead—25% next year.

Q142 Ian Swales: Can I just come back quickly on this? Just to be clear, was the £1.4 billion offered in the contract at the start or is that something that has emerged later?
George Beveridge: No, the £1.4 billion was the result of all our initiatives in the tender. So everything we put forward, everything that could possibly be achieved, added up to £1.4 billion in today's money value.

Q143 Ian Swales: So it was part of the original tender.
George Beveridge: Yes, it was, but also part of the original tender was a commitment to deliver a minimum of 80% of that.
John Clarke: 80% is purely a minimum performance standard that enables the contract to be rolled into the second period.

Q144 Ian Swales: So that number was effectively asked from all bidders.
George Beveridge: No. The model with 80% was there, but it was up to bidders to put forward what their total number was.

Q145 Chair: Are you going to achieve £1.4 billion by the end of next year?
George Beveridge: We are projecting to achieve just slightly over 80% of that.

Q146 Chair: It just seems a very weird way of doing the business. Either they offer £1.4 billion or they do not. They offer—
George Beveridge: £1.15 billion.
Chair: It is completely daft.
Ian Swales: Well, I can see in a shopping list of possibilities you may not hit them all.

Q147 Chair: A Government Department would not do that. A Government Department that does not hit its 33% cuts in back office costs, I do not know what you would do to them.
John Clarke: There are two elements to it. The 25% support and overheads costs is not an 80%. It is a 25% target and if they hit the 25% target they will be rewarded for that and if they do not they will not. So it is not an 80%. The 80% is an aggregate over the whole picture and all it does is it allows the NDA to choose to continue—

Q148 Chair: So you do not give the performance fee.
John Clarke: It allows us to continue into a second phase.

Q149 Chair: But do you give them a performance fee for getting to the 80%?
John Clarke: Yes, because the way it works is they earn 25% of all efficiencies that are earned, so the greater the efficiency that is earned, they take a proportion of it, and we keep 75%.

Q150 Ian Swales: Can I just ask one final question on this? I suppose I should declare an interest as an accountant who has moved numbers around myself in the past.
Mr Bacon: Surely not.
Ian Swales: Absolutely. How do you verify, particularly when you use the expression "people moving from back office to frontline", these savings? Because if somebody has "overhead" stamped on their forehead and you change them to "production" then that is, I think, from the way you are talking, part of achieving the efficiency saving. How do you verify that this is real and that those performance fees are therefore justified? How is it audited?
John Clarke: We are acutely aware of the risk of moving somebody from office A to office B and claiming they are no longer back office, they are now frontline, so we do go in and we audit. We have our site-facing team that goes in to audit that and we have our central audit function that goes in to look at that.

Q151 Ian Swales: Do you use NAO or do you have NDA people who do this?
John Clarke: We do it ourselves, but it is part of what we do through our Project and Programme Review Group, which has external people in it, similar to the MPA.
Amyas Morse: Just to add something to what you were just saying, Mr Swales, in fact, the more efficiency you deliver, the higher the fee. That is how it works.
John Clarke: Yes.
Amyas Morse: So it is not as if there is some inducement not to deliver. The more efficiency you deliver the better it is for you. That is fair.
John Clarke: Yes.

Q152 Ian Swales: I can well understand that, yes. My last question was about how real it is, because the NAO have looked at Government savings in the past and got quite low figures of real figures versus claimed savings, like 35%.

Q153 Mr Bacon: You have verified £425 million so far of the £695 million as at September 2012, but you had not—this is page 25—yet verified the £270 million from 2011–12. Have you now made any further progress with that?

John Clarke: We have. I could not tell you right here what the number is.

Q154 Mr Bacon: When do you expect to finish that process of verifying?
John Clarke: I do not have an answer for that either, but I would happily give you a written answer to where we are on that.

Q155 Chair: We have to come to an end. I have one final issue. To try to get better figures on costings, clearly the contingency allowances matter. According to the Report, your contingency allowances range from 0.9% to 13.5%. That is a figure in the Report, but the experience in the Report says that the costs go up by 117%. Can you take us through the justifications for your far lower figures, which appear to be unrealistic given the experience?
John Clarke: I think risk and contingency is something that has not been adequately dealt with, as noted in the Report. If you look at the Treasury *Green Book* for first of a kind, one-off projects, you will get contingencies of sometimes up to 200%. So that is something that we recognise we need to do more and we need to see better risk and contingency management from Sellafield Limited. That is an area where we are putting a lot more focus and I keep coming back to our Project and Performance Review Group, which contains external expertise, which we have modelled on the MPA. It is going in and looking at some of these projects and programmes to see precisely what is the level of risk and contingency. Interestingly, on evaporator D, the first thing that gave the NDA a headline that something was going off track was the rate of contingency burn. When we started looking at that, we could see contingency was being used up far faster than the project could possibly last for and that was the first thing that rang alarm bells. So it is an area where we do need to do more and we are doing more already.

Q156 Chair: The very final thing from me is whether you would be happy to see the two projects that are at risk, which is your evaporator D and the silos direct encapsulation plant, monitored by the MPA.
John Clarke: I am not sure what the MPA's view on that is.

Q157 Chair: No, would you be? I asked you. It is up to them to then prioritise their work, but would you be happy for them to look at those—it looks to me, I do not know if I have got this right—two highest risk projects?
John Clarke: I do not have a personal problem with the MPA looking at anything. We have a very close working relationship with David Pitchford and his team. In fact, I think it is the case that we provide more reviewers to the MPA per head of population than any other Department. We have seven high risk reviewers working on MPA projects, reviewing things like the Thames Barrage, etc.

Q158 Chair: Because most of your spend is here in Sellafield, so if you knock it all out as not being MPA relevant because it is second tier or third tier—I do not know how many tiers we are getting to—they are not looking at your major spends.
John Clarke: I am very happy to discuss with the MPA what their views on that are. I would only say that once you open up the work of our site licensed companies to the MPA, you potentially open up a huge amount of work for the MPA and it is doing work the nature of which we do already.

Q159 Chair: But it is a lot of money.
John Clarke: It is a lot of money, absolutely, and we take it very seriously.

Q160 Chair: We are about to look at the whole of Government accounts again and when you look at that and the unknown commitment over time to the taxpayer, nuclear decommissioning always hits you in the face as a big, big sum.
John Clarke: It is and I personally take it very seriously as accounting officer.

Q161 Meg Hillier: On the issue again of procurement, figure 5 on page 18 is a very handy pie chart that the NAO characteristically has provided, usefully, to us. I wondered, Chair, whether it would be possible to get a note from Sellafield Limited to break down some of those large numbers, particularly something like, for instance, professional services—£438 million over one year, which is a lot of potential small businesses locally or in the UK that might be in there—and then some of the others. I wonder if we could get a list of the companies that have got those contracts under subcontracts.
George Beveridge: Certainly we can provide that.
Meg Hillier: Obviously with values attached.
George Beveridge: Yes, certainly.

Q162 Chair: Can I again thank you very much indeed for hosting us today? I thank the people of Cumbria as well for allowing us to come up here and have a look at it first hand. We do recognise the enormity of the challenge and it has come home to us in just wandering around there. I hope that our Report and our recommendations will help in meeting the common objectives. So thanks very much indeed.
George Beveridge: I am sure they will. Thank you.

Written evidence from Cumbria County Council

Cumbria County Council welcomes the report by the National Audit Office and has studied its outcomes with great interest. We would like to take this opportunity to share this authority's view on the Report in advance of the visit by the Commons Public Accounts Committee on 26 November 2012. We are happy to discuss any of the matters raised in this response further as appropriate.

The management of decommissioning and associated activities at the Sellafield Site are naturally a source of great importance to the Authority, particularly given our responsibility for planning issues linked to waste developments. The Council also has a central community and economic well-being role to play in Cumbria. In undertaking this role, we are required to work closely with the business community, particularly our large employers.

The Sellafield site is home to over 9,000 direct staff with many hundreds more employed throughout its supply chain. In a remote area like West Cumbria, Sellafield as an employer has a dominant influence on the local economy and the Council is working both with Sellafield and other key partners to ensure that the greatest possible amount of economic benefit is retained in the area.

Value for Money

The report outlines the operating model that the NDA has established for the Sellafield site with one of the key elements being a 5+5+5+2 PBO potential contract length. The initial terms of the parent body agreement with Nuclear Management Partners ends in 2014 and the Council as a strategic Local Authority, believes that it is important to seek assurances prior to any decision on extension or re-competition being undertaken that the PBO operating model:

- Provides the necessary value for money to the UK taxpayer;
- Ensures that the decommissioning and clean up activities are undertaken to the highest possible safety standards; and
- Delivers the optimum benefit to the people of Cumbria.

In particular, the Council would like assurances around the following areas:

- The PBO, as set out in the NDA Operating Model Guidance is responsible for providing leadership through the provision of suitably qualified and experienced staff that can lead the decommissioning and clean up mission on the site. The report notes that between 2008 and 2012, the cost of the Sellafield Executive has totalled £32 million with an additional £17 million in 2011–12 for "reachback" enhancers. On page 10, the report notes that between November 2008 and March 2012 the total cost to the NDA of staff seconded from Nuclear Management Partners into Sellafield Ltd was £76 million. The report also notes that it is too early to judge whether the appointment of NMP as parent body provides value for money, however with the end of the initial five year period approaching, the Council believes that some assessment of return on investment needs to take place at the earliest possible opportunity.
- Knowledge & Experience—The majority of the executive-level staff only remain on site on average between two to three years and then return to undertake other roles elsewhere within their parent companies wider operations. This raises concerns around continuity of approach and the ability of executives to make a meaningful difference at Sellafield with a long-term approach in mind.
- Long-term planning—With the length of the PBO contract lasting up to 17 years, this raises questions as to what incentive there is for the incumbent to plan for decommissioning activities effectively after that period? The report notes on p16 that "*successive site operators developed Sellafield without sufficient thought to decommissioning or retrieving and disposing of radioactive waste*". One reason for this could have been the lack of incentive as there was no profit to be made from such activity. With this in mind, what assurances are in place for the parent body company to plan sufficiently for activity that will take place after their contract has ended?
- Lifetime Planning—On P20 the report notes that the NDA has agreed both a "contract baseline" and a "performance plan" with Sellafield. The former outlines the baseline against which performance improvements are measured to calculate fees. The latter sets out what Sellafield Ltd expects to achieve each year showing how it will outperform the contract baseline. Sellafield Ltd is responsible for writing both of these Plans. With this in mind, the Council welcomes Recommendation 10 (p7) to ensure that there are suitable assurances in place to assess levels of performance by Sellafield.

Performance Against Projects & Supply Chain

It is pleasing that the report recognises a number of areas of good performance at Sellafield, particularly in commercial operations. Increased performance in the amount of Uranium vitrified, Thermal Oxide fuel rods sheared and AGR fuel received are all notable success stories. There is also a reasonable level of performance against projects in the planning and design phase. It is clear however that in terms of performance against projects in the construction phase this is less satisfactory and we are concerned at the suggestion (p44) that delays in some projects could put at risk completing high hazard reduction. The Council would also welcome assurance that the drive for efficiency requirements linked to the performance plan does not negatively impact on Sellafield's ability to accelerate high hazard reduction activities.

Supply Chain—The report notes (p38) that gaps in the capability of the supply chain have had direct consequences for the speed and efficiency of project delivery. It is helpful to note that the Nuclear Decommissioning Authority (NDA) is working with Sellafield Ltd to develop its procurement strategy and identify how to build up the supply chain to meet the needs of the site.

The Council has a number of concerns about the way in which local suppliers are able to access work at Sellafield linked to the implementation of large-scale Framework contracts. This method of procuring services at Sellafield is in its early stages with the first Design Service Alliance (DSA) contract in operation and the second, the Infrastructure Service Alliance (ISA) having its preferred suppliers recently announced. The Framework approach was promoted to local partners as a method of:

— Securing greatest value for money;
— Driving efficiencies;
— Improving longer-term planning;
— Providing greater visibility of work; and
— Providing greater security to the supply chain through longer-term contracts.

The Council is concerned that at this stage that these goals are not yet being achieved through the DSA with the following anecdotal issues being raised by local companies:

— The long term planning is not yet taking place with DSA partners and thus the wider supply chain noting limited visibility in work at Sellafield. This is impacting considerably on smaller companies being able to plan their future potential workloads.
— A lack of work at this time flowing through the DSA contract compared to that which was expected. Whilst this is impacting on DSA partners themselves—it is crucially having a substantial effect on smaller companies who are noting a substantial reduction in work compared to previous years. This reduction in work, should it continue has the potential to destabilise a number of West Cumbrian firms, lead to high value job losses and potentially business closures.
— There is a growing perception that doing business at Sellafield is becoming increasingly difficult for smaller businesses. With Frameworks ensuring that only the largest national and international firms are able to bid to be Tier 2 contract holders, local businesses are reliant on such companies electing to genuinely follow the "best athlete" principle and welcome West Cumbrian companies into their supply chains. If local firms are unable to secure meaningful work at the site it could not only result in destabilising existing businesses but it could impact on business start up and inward investment with West Cumbria becoming too high risk to consider establishing a business base. This has a considerable knock-on effect on the local economy.
— The length of the Frameworks—although apparently providing greater value for money and visibility, could equally have a potentially negative impact through tying the supply chain to a single business/consortium for up to 15 years. If successful relationships are not cemented early on, it will be increasingly difficult for local companies to access work at Sellafield.
— EU and the Office of Government Commerce both note that it is important to establish a contracting environment that facilitates SME access to promote competition and act as a counterbalance to dominant market players. There is a strong argument that the Framework arrangements run entirely contrary to this ethos and serves to stifle innovation within smaller companies and force them to contract through the dominant market players rather than being able to provide balance.

Given the concerns noted in the report surrounding the capability of the supply chain, it is essential that the best performing and most innovative firms are able to secure work on the site to help to provide solutions in the most cost-effective, efficient and safe manner for the taxpayer. The Council is pleased that Sellafield Ltd and the NDA have entered into productive discussions with local partners on this issue and we are anxious that this leads to positive outcomes quickly for local businesses as well as for the delivery of operations at the site. The Council is also pleased to note the intention of the Authority to review Sellafield's subcontracting with its parent body's companies and we look forward to the results of the NDA's current research into the "health of the supply chain" early in 2013.

Openness and Transparency

Since it was created, the NDA has made great strides in improving the levels of openness and transparency across its estate. It was therefore disappointing that many of the issues covered by the NAO Report came as a surprise to key local stakeholders. Even the Chairman of the Site Stakeholder Group, created by the NDA to "provide public scrutiny of the nuclear industry in West Cumbria by providing an active, two-way channel of communication between the site operators, the NDA and local stakeholders" was quoted in a local paper as being shocked at the figures quoted for the "Reachback" programme. Clearly, the NDA needs to do better in this area and review its approach to engaging with the County Council and other key local stakeholders. The Recommendation in the Report that "The Authority should routinely report externally on its major projects, with performance information against original schedules and budgeted costs. This will enable Parliament and the public better to hold the Authority to account for important work which is at considerable cost to the taxpayer" is welcome, but we feel the NDA needs to go further and develop a more proactive, "no surprises" relationship with stakeholders on all aspects of its strategy and work programme.

In light of all the above comments it may be beneficial to consider how to build more in to the role within the Sellafield Site Stakeholder Group of Cumbria County Council, as the Strategic Authority, in the engagement and proper mechanism of scrutiny to optimise input in terms of our Community leadership role.

We hope you find the comments constructive and we are keen to work with all relevant partners to ensure that nuclear operations at Sellafield are delivered in the most successful manner possible.

Cllr Tim Knowles

20 November 2012

Written evidence from Copeland Borough Council

The National Audit Office report reflects the complex nature of the work carried out at the Sellafield site and outlines some real risks which are now being addressed. The Council welcomes the report and the forthcoming visit by the Commons Public Accounts Committee (PAC) and asks that the following comments and observation are considered in the "evidence Session" to be held on 26 November 2012.

The legacy of "intolerable risks" associated with Sellafield is something that Copeland Borough Council has always been aware of. It is our responsibility to our local community to ensure that the NDA are doing their utmost to ensure that these risks are reduced and removed and there is some confidence that this is the case.

The Council recognises that the "clean up" of the Sellafield site is a complex task, and one which has been further complicated by successive governments inability to galvanise concerted effort. Although it is a challenging task it is essential that local communities have confidence that the decommissioning and clean-up process is progressing and we welcome scrutiny of the operation and management of the site.

Issues Raised by the Report

The key issues that we believe should be considered are as follows:

1. Nuclear Management Partners (NMP) Ltd as the Parent Body Organisation (PBO) has an agreement with the NDA to improve performance by using outside expertise through the "reachback" processes. It would be beneficial at this time to reflect on this approach and to consider if it has been successful, offered value for money and delivered meaningful and measurable results for the community of Copeland, both in achieving their initial goal of risk reduction and through the wider socio-economic impacts on the community and up skilling of the local workforce.

   This issue is addressed in the report *"Nuclear Management Partners also seconds specialists, known as 'reachback', partly to manage critical projects and programmes better. The Authority reimburses the cost, plus an additional 10% contribution to the parent companies' overheads. Reachback costs totalled £44 million between November 2008 and March 2012. The cost in 2011–12 was £17 million, for 63 full-time equivalent secondees, against a forecast of £12 million. In February 2012, the Authority identified a lack of evidence to support using reachback resources. In response, Sellafield Limited has taken steps to improve its governance arrangements and in August 2012 produced a reachback deployment strategy."* (Pg. 26, 2.16)

   This process seems to exclusively benefit parties within the PBO and currently fails to utilise skills secured through reachback in the effective delivery of improvements to the skills base of the local workforce. This undermines the potential for considered use of reachback to provide for efficiency in dealing with key projects but also in providing for a legacy of a highly trained and adaptable local workforce as specialist skills are brought to the site. Should the governance and protocols over reachback be reviewed?

2. The report highlights that one of the key factors affecting performance is construction proceeding before design risks were either fully designed or sufficiently addressed (pg. 29, 3.1). The Council believes that this is a direct consequence of the design team working remotely. The design team needs to be relocated onto or in close proximity to the site, providing for far greater integration of design and implementation and a more effective and immediate response to problems and issues which inevitably emerge given the complexity of the work involved. This integrated and common sense approach would also directly facilitate a feedback process where lessons learnt from the implementation stage can be fed back into the design process.

What is the rationale behind having the design team located in any location other than in close and practical proximity to site and its complex and dynamic operations?

3. Throughout the report there are numerous references to the cost over runs and under performance of projects stating that "*Between May 2011 and March 2012, 12 of the Authority's 14 major projects delivered less than planned.*" (Pg.8 .11). The report is critical of the implementation of "Risk Transfer" to NDA and the ability of the NDA to both set the budget at the start of the year and to then amend it (pg. 35, 3.9). There is little accountability for cost overrun and the fees incentive to keep cost down is ineffective. The Council seeks further clarity into how the NDA *"is considering how the existing incentive framework could be strengthened if it is chooses to renew the parent body agreement in 2014"*.
4. The report states that *"Gaps in the capability of subcontractors in the supply chain to undertake work to the standards required for nuclear installations have had direct consequences for the speed and efficiency of project delivery"* (Pg. 38 3.11). The NDA and Sellafield have long standing commitment to work with the local supply chain to help it develop and maintain its ability to be "fit for purpose". How has the NDA/Sellafield allowed such an avoidable situation to occur and what strategy are they implementing to ensure that skills and capability gaps are filled, to enable the local supply chain to work effectively and competitively? To what extend is the poor project management and mission shift on the major projects on site affecting the ability of the supply chain to perform?
5. Local suppliers have difficulty in accessing the work at Sellafield. This is a direct result of the procurement process and the implementation of a large-scale framework contracts. There appears to be a blockage in the filtering down of large scale projects from tier 2 contract holders to local sub-contractors. The report states that the NDA is working with Sellafield Ltd to develop its procurement strategy (Pg. 38 3.12). How will the framework be monitored and modified? And how will the concerns as outlined above be addressed?
6. Under the Energy Act 2004 the NDA has a duty to consider the socio-economic impacts of its strategies and plans. The Council echoes the concerns raised by the Public Accounts Committee and the calls to incentivise site operators more effectively and to strengthen their supply chain (Pg. 6. 6). An effective quality assurance process needs to be in place to ensure that Sellafield Ltd is helping local firms. Is there adequate contractual provision to ensure that the NDA holds Sellafield to account for their socio-economic obligations to the locality?
7. The existence of intolerable risks at Sellafield has arisen as a result of successive government's inability to address the problem and deferred decision-making. The report goes some way to identifying some of the effects of deferred decision making (Pg.16, 1.10) what others are there, and how are lessons learned from this experience taken forward in the current decommissioning programme to ensure that we leave a safe and positive legacy for future generations?

The Council appreciates the opportunity to critically review the strategy, plans and processes currently implemented within the Sellafield decommissioning strategy and governance system. We would welcome the opportunity to further work with the NDA and the NMP to provide positive meaningful engagement that would help facilitate the future implementation of the plan through successful community engagement and adding value to the local supply chain.

If you require any further clarity on any of the points raised above please do not hesitate to get in touch. I would be pleased to have the opportunity to elaborate.

Cllr Elaine Woodburn
Leader of Copeland Borough Council

23 November 2012

Written evidence from the Nuclear Decommissioning Authority

Response to Q153–154

NDA's assurance process for the 2011–12 efficiency savings position is due to be completed by the end of December 2012. A fully agreed position will be available by the end of January 2013. Although the final position must not be prejudged, work to date indicates that almost all the 11/12 efficiencies claimed by Sellafield are likely to be validated and accepted.

Response to Q161

Validation by Sellafield Ltd, of their underlying information has identified some data handling errors in the values originally reported to the NAO. We don't believe it impacts the report's findings or recommendations, as the delta is small (<1%) and this data is part of the background context information, not the main focus of project performance.

The value of subcontracts in 11/12 reported to NAO was £986 million, adjusting for the data handling errors, this has been revised to £979.4 million, a difference of £6.6 million (<1%).

NAO Subcontract Category	*Reported Value*	*Revised Value*	*Difference*
Construction	£94,847,371	£95,375,369	–£527,998
Labour	£72,135,830	£76,897,603	–£4,761,773
Materials	£72,789,488	£71,158,627	£1,630,861
Other	£126,899,497	£125,856,497	£1,043,000
Other Services	£127,753,968	£131,717,169	–£3,963,201
Plant & Equipment	£53,116,031	£50,925,976	£2,190,056
Professional Services	£438,494,733	£427,522,935	£10,971,798
Grand Total	£986,036,918	£979,454,175	£6,582,743

Duncan Thompson

7 December 2012

Printed in the United Kingdom by The Stationery Office Limited
02/2013 026198 19585