House of Commons
Committee of Public Accounts

Progress at Sellafield


Report, together with formal minutes, oral and written evidence

Ordered by the House of Commons
to be printed 3 February 2014
Committee of Public Accounts
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Committee staff
The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Ian Blair (Committee Assistant) and Janet Coul Trisic (Media Officer).

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Summary

Progress in nuclear decommissioning and reprocessing at Sellafield has been poor. Timescales have slipped, costs have escalated substantially and reprocessing targets have been missed. Costs rise every year and the latest cash estimates for dealing with nuclear waste on the site exceed £70 billion in cash terms. Nuclear Management Partners Limited (NMP) was brought in to improve the performance of Sellafield Limited, the company that manages and operates the site. However, little improvement has been achieved for extra money spent. NMP has not provided the clear leadership, strong management and improved capabilities needed to deliver the performance required at the site. Despite this, the Nuclear Decommissioning Authority (the Authority) extended NMP’s contract for a further five year term. The justification for doing this is highly questionable, particularly given a highly critical assessment of NMP’s performance by KPMG. The Authority must monitor NMP’s activities closely and terminate the contract should performance not improve.
Conclusions and recommendations

1. Sellafield is the largest and most hazardous of the nuclear sites owned by the Authority. Sellafield Limited is the licensed operator of the site and manages the site under a contract with the Authority, which reimburses its costs of around £1.6 billion a year. In 2008, the Authority appointed NMP, a consortium of private sector companies, as the ‘parent body organisation’ (PBO) of Sellafield Limited to improve performance using its expertise. NMP receives fees earned by Sellafield Limited for improved performance in the form of dividends, receiving some £50 million in 2011-12, totalling £230 million over the 5 years of the initial contract. A report from consultants KMPG commissioned by the Authority in 2013 was very critical of key features of NMP’s performance over the initial contract term. Despite these criticisms, the Authority announced in October 2013 that it had decided to extend its contract with NMP for a further five years.

2. The Authority has extended its contract with NMP despite the company’s poor performance at Sellafield. There have been significant delays and cost overruns on a number of major projects on the site. For example, the estimated cost of the ‘Magnox swarf storage silos retrievals’ project increased from £387 million in March 2012 to £729 million in September 2013. In the 18 months since we last considered progress the estimated delivery date of the ‘Pile fuel cladding silo’ project had been put back by six years from August 2017 to January 2023. The Authority did not expect NMP to meet its savings target for managing and operating the site over the first five year contract period. The Authority recognised that performance at Sellafield has been worse than expected but justified extending the contract with NMP on the grounds that it had been the best option available and that it could use a clause in the contract to terminate it at any time if poor performance persisted.

Recommendation: The Authority should set out how, and when, it will review what progress NMP is making in improving performance at the site. The National Audit Office should review the Authority’s approach and report back to us on performance at Sellafield one year into the extended contract.

3. NMP has not provided the leadership and strong contract management skills that are critical for the success of the major projects at Sellafield and the running of such a large and complicated site. NMP was brought in as the parent body to provide Sellafield Limited with the leadership and skills it needs to manage and operate the site. But there has been a high turnover of executives provided by NMP to provide leadership and NMP has failed to train staff with specific skills, capabilities and experience. NMP accepted that there are still capacity problems in a number of areas at Sellafield which it is seeking to address, including project management skills, cost estimation, procurement strategy, supply chain management, design capability and engineering.

Recommendation: The Authority should monitor, and challenge where appropriate, the use made of NMP-appointed executives and experts and the terms on which they are employed. NMP should publicly report its costs, progress and the value it has brought to the site.
4. The Authority has not demonstrated why, given the lack of risk transferred to NMP, this ‘parent body’ arrangement at Sellafield provides value for money. NMP is likely to earn some £230 million over the first five years of the contract but because of uncertainties regarding the scope of the plans for the site it had not been possible to agree a contract that transferred risk to a parent body organisation and that as a result the contract was on the basis of cost-reimbursement. The Authority extended NMP’s contract rejecting other options which include recompeting the contract and dispensing with a PBO and managing Sellafield Limited as a subsidiary. The Authority said it believed extending the current contract to be the best option available. The Authority is required by the Nuclear Installations Act to be prepared to step in should the parent body fail.

**Recommendation:** *The Authority should set out how it might transfer more of the delivery risk to contractors under its existing arrangements and how it will ensure that its alternative arrangements are viable to enable it to terminate the current contract should performance continue to prove unsatisfactory.*

5. It is not clear whether there are adequate safeguards to protect taxpayers’ interests in the contractual relationships between the private companies involved in managing and operating the Sellafield site. KPMG concluded that NMP’s objectives were not aligned with the aim of securing value for money for the taxpayer. NMP recognised it had a role in challenging Sellafield Limited and supporting it to deliver value for taxpayers’ money. But NMP owns Sellafield Limited and the private companies that own NMP can bid for, and be awarded, contracts by Sellafield Limited. The Authority reviews the letting of such contracts to ensure that contract awards are “clean and fair”.

**Recommendation:** *The Authority, Sellafield Limited and NMP should report publicly on the safeguards in place to protect taxpayers’ interests and manage potential conflicts of interest in transactions between each party, their operation and their roles in securing value for money for public funds.*

6. The Authority unduly restricted the information it made available to the public on performance at Sellafield. The Authority’s redactions of information in the KPMG report on performance at Sellafield released under Freedom of Information legislation appeared to go well beyond the stated reasons of commercial confidentiality and data protection. For example, the Authority redacted not only the names of organisations expressing views, but also the views themselves, on subjects such as failures in NMP’s leadership and whether contracts had been met.

**Recommendation:** *The Authority should revisit its approach to disclosing information to ensure that it does not use grounds such as commercial confidentiality inappropriately to withhold information on performance on its sites and by its contractors.*

7. The Authority has not set out clearly its strategy for dealing with the plutonium stored at Sellafield. The Department’s preferred option is to process the plutonium to form a mixed oxide fuel for civilian use which would reduce the security concerns associated with its storage. However, a previous plant to reprocess plutonium into
fuel for civilian purposes, which cost some £1 billion, proved to be problematic and is now closed. The value of the fuel produced in a new project would be lower than the cost of building, maintaining and operating a new plant and there are currently no nuclear power stations in the UK which could use the fuel.

Recommendation: The Authority must learn from past mistakes and ensure that there is a comprehensive, robust business case before any decision is taken on dealing with the plutonium stockpile.
Performance at Sellafield

1. Sellafield, the UK’s largest and most hazardous nuclear site, has been in operation since the 1940s. The Authority, which took ownership of Sellafield in April 2005, inherited a legacy of poor planning, neglect and gaps in information. Around 240 of the 1,400 buildings on the site are operating nuclear facilities or buildings containing radioactive materials. Some that are deteriorating or fall short of modern standards pose significant risks to people and the environment.

2. The Sellafield site is operated and managed by Sellafield Limited, the site licence company, under a contract with the Authority, which reimburses its costs. In November 2008, the Authority appointed Nuclear Management Partners Limited (NMP), a consortium of private sector companies, as the ‘parent body organisation’ (PBO) of Sellafield Limited with the aim that the expertise provided by NMP would improve Sellafield Limited’s performance. NMP receives fees for improved performance at Sellafield in the form of dividends, which totalled some £50 million in 2011-12 and are expected to total £230 million over the five years of its initial contract. NMP owns Sellafield Limited for the duration of its parent body agreement with the Authority.1

3. On the basis of a report from the Comptroller and Auditor General on the efficiency savings achieved at the site2, performance data provided by the Authority on cost and delivery schedules for the 14 major projects at Sellafield to September 20133 and a report by the consultants KPMG on performance and the functioning of the PBO model at Sellafield to 31 May 20134, we took evidence from the Authority, the Department of Energy and Climate Change (the Department), NMP and Sellafield Limited on the progress which has been made at Sellafield since our previous report on managing risk at Sellafield published in January 2013.5

4. The Authority currently expects the total cost for the decommissioning of the Sellafield site to exceed £70 billion in cash terms. Delays and increases in the estimated costs of major projects are likely to mean that this will continue to rise, although the Authority does not have a revised estimate. The estimated costs of seven of the 14 major projects at Sellafield have increased significantly and target completion dates for eight of the projects have slipped between March 2012 and September 2013. For example, the estimated cost of the ‘Magnox swarf storage silos retrievals’ project increased from £387 million in March 2012 to £729 million in September 2013. The estimated cost of the ‘Pile fuel cladding silo’ has also risen from £341 million to £750 million over the same period and its estimated

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1 Managing risk reduction at Sellafield, National Audit Office, HC 630, Session 2012-13, 7 November 2012, para 4
2 Assurance of reported savings at Sellafield, National Audit Office, HC 778, Session 2013-14, 29 October 2013 (C&AG’s Report)
3 Ev 44-48
4 The PBO model at Sellafield: Performance to 31st May 2013, KPMG, 11 September 2013 (KPMG report).
5 Committee of Public Accounts; Nuclear Decommissioning Authority: Managing risk at Sellafield, Twenty-fourth Report of Session 2012–13
delivery date slipped by six years from August 2017 as at March 2012, to January 2023 in the space of 18 months. 

5. Over the years Sellafield Limited’s reprocessing operations have rarely achieved the targets set for them by the Authority. The Authority told us that it set stretching and demanding targets for reprocessing and it incentivised NMP to achieve them, reducing the fees payable when targets were not met. The Authority accepted that performance had been disappointing in 2012-13, but considered that there had been examples of good performance in 2011-12, for example, on Magnox reprocessing, when Sellafield delivered 602 tonnes even though this was less than the 800 tonnes target. The Authority told us that the varying performance from year to year reflected the inherent fragility of the old reprocessing plants.

6. NMP does not expect to meet the original minimum performance standard for site-wide efficiency savings for managing and operating the site over the first five year contract period. In October 2012, Sellafield Limited forecast that, over the five years of the initial contract, it would achieve £825 million savings, against a minimum performance standard of £796 million. The Authority revised the minimum performance standards for efficiency savings in 2012-13 to exclude legacy ponds and silos and it now forecasts that Sellafield Limited will achieve £691 million of savings against a revised target of £699 million. NMP informed us that it forecast it would meet the revised minimum performance standard on efficiency if the Authority accepted its method of calculating the target.

7. The Authority brought NMP in to improve the capability of Sellafield Limited. NMP has placed secondees into Sellafield Limited’s Executive team to improve its leadership, but there has been a high rate of turnover among them. There has been a disappointingly high level of turnover in the position of Managing Director within Sellafield Limited, with four in the last five years, although in two cases this was for personal or health reasons. The Authority told us that NMP had provided some extremely good people, but that the performance of executives in some positions had not met its expectations and that it had raised its concerns over executive turnover in discussions with NMP.

8. Sellafield Limited has used more support from NMP staff, known as “reachback” than had been expected, to draw in staff with specific skills, capability and experience, and the Authority acknowledged that the use of reachback has not been as controlled as it should have been. Employing staff on this basis is expensive. The Authority expected Sellafield Limited to use 50,000 hours of reachback a year. This was initially exceeded in response to the Authority’s demand for additional capability in project management. But in 2012-13 Sellafield Limited used 159,000 hours of reachback support at a cost of £25.9 million, with an average cost of £300,000 per expert provided. KPMG stated in their report that “reachback” was too often used inappropriately to cover, for example, back office

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6 Qq 127-129, 131-133, Ev 44-48  
7 Qq 140-143  
8 Qq 284-287  
9 C&AG’s report; paras 1.17–1.19  
10 Ev 65  
11 Qq 12, 19, 54, 245, 327-330, 348
functions. The Authority believed that the term “back office” was misleading as this support had been for specific programme and project reviews on behalf of the Managing Director. The Authority asserted that the use of reachback is now better controlled so that Sellafield Limited must define the requirement clearly and demonstrate that it could not be better delivered by existing staff with suitable training, direct recruitment or from the supply chain. Sellafield Limited told us that it is replacing reachback experts with staff trained up and promoted into the jobs, reducing the use of reachback by 40% in the last six months.  

9. The Authority told us that there had been, and continued to be, improvements in capability at Sellafield Limited as a result of NMP’s involvement, but that the rate of improvement had been less than it would have wished. KPMG were critical of performance across a wide range of areas, from project management, to cost predictions, from engineering capability to meeting minimum performance requirements. NMP agreed that there was scope for improvement within Sellafield Limited in project management, business case preparation and cost estimation, procurement strategy, supply chain management, design capability and engineering. NMP told us that it had taken action to improve project management in Sellafield Limited, but that this was not yet fully complete. NMP highlighted the challenges in building risk and contingency into Sellafield Limited’s cost estimates NMP described how it was difficult to assess contingency for all of the unknowables in a project, ranging from the uncertainty in the materials to be decommissioned to uncertainties about the technologies to be used. A large stock of plutonium is currently held at the Sellafield site at a cost of approximately £40 million per year. The department’s currently preferred plan is to build a ‘MOX’ plant, which would convert the stock of plutonium into fuel for use in nuclear power stations. The previous attempt at building and operating a MOX plant had serious problems and had to be abandoned, with some £1 billion of costs incurred to date. There are currently no UK nuclear power stations which can use this kind of fuel, and even if there were, the cost of building, operating and maintaining a MOX plant would be higher than the value of the fuel produced.

12 Qq 320, 349-352, 362-367
13 Q 34, 54, 13
14 Q 256, 290, 296, 299
15 Q 289
16 Ev 50
17 Qq 152-153, 154, 159
2 The extension of the Authority’s contract with NMP

10. The Authority commissioned KPMG to provide an independent review of the performance of NMP and Sellafield Limited to help inform its decision whether to extend its contract with NMP. A redacted version of the report, *The Parent Body Organisation (PBO) model at Sellafield: Performance to 31st May 2013*, was released by the Authority on 1 November 2013, shortly before our first hearing on this subject, in response to a Freedom of Information request. Shortly before our second hearing, the Authority provided us with an unredacted version of the report.

11. The Authority’s redactions from the KMPG report appeared to go beyond its stated grounds of commercial and personal data protection. The Authority redacted not only the names of organisations expressing views, but also the views themselves, on subjects such as failures in NMP’s leadership, whether contracts had been met, and a summary of the low annual reprocessing output. The Authority told us that it had made redactions to protect individuals or the organisations they represented who had provided comments on the understanding that they would remain confidential. But the Authority accepted that some redactions might not have been appropriate and might have gone beyond its legal grounds for making them. The Authority told us that it had not revisited the redactions it had made to the KPMG report.\(^\text{18}\)

12. The Authority extended its contract with NMP despite the poor performance to date and the fact that the contract does not transfer risk to NMP. The Authority told us that it had used contracting approaches which transfer risk to private companies acting as parent bodies on its other sites, such as Dounreay. In these cases there is more certainty over the scope of the work and what needs to be delivered and the private sector can therefore bid based on a firmer understanding of schedules and costs. But at Sellafield this had not been possible because of the unpredictability on the site. As a result, the private sector would only accept a fully cost-reimbursable contract.\(^\text{19}\)

13. The Authority explained that with the Department’s agreement it had extended the contract with NMP because it considered this was the best option available at the time. The Authority told us that in reaching this decision it had explored two alternatives: to re-let the contract; or to dispense with the parent body and operate with Sellafield Limited as a subsidiary of the Authority.\(^\text{20}\) Under the Nuclear Installations Act the Authority is required to be in a position to operate without a parent body in case the need arises, for example if the parent body went into insolvency, in order to ensure the site’s safety, security and environmental compliance.\(^\text{21}\) The Authority told us it was continuing to maintain and further develop the two alternatives to the current parent body arrangement.\(^\text{22}\) It would use

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\(^\text{18}\) Qq 179, 196-197, 199, 213
\(^\text{19}\) Qq 20-22, 33
\(^\text{20}\) Qq 4, 38
\(^\text{21}\) Qq 395-401
\(^\text{22}\) Ev 59-60
one of these options if the arrangement with NMP did not continue to give the best chance of successful performance, a judgement it would need to make in the context of the significant uncertainty of the task at Sellafield.\textsuperscript{23} The Authority noted that it had extended the contract on the basis that it could terminate it at any stage, which it said it had highlighted in recent meetings with NMP.\textsuperscript{24}

14. The contract with NMP includes minimum performance standards, but they do not cover all key areas, such as performance on major projects, which is clearly unacceptable. The Authority told us that it had not changed the terms of the contract before renewing it because to have done so would have risked a legal challenge under EU procurement rules. The Authority told us that the contract does not preclude it from setting clear expectations and requirements of NMP and it was discussing revised minimum performance standards for the second contract term with NMP.\textsuperscript{25} However NMP has failed to meet the original and revised minimum performance standard on efficiency in the first contract.

15. The Authority intends to monitor NMP’s performance against the updated 2014 performance plan and an ‘excellence plan’ which it had developed with NMP and Sellafield Limited setting out the Authority’s expectations for NMP.\textsuperscript{26} The excellence plan consists of eight improvement themes and contains specific measures and targets for the coming year and the following two years.\textsuperscript{27} The Authority told us that it would give particular focus to six priority areas in determining whether the contract with NMP should continue or be terminated covering: schedule and cost performance on projects; operational performance; safety performance; savings against targets; capability improvement in engineering, commercial, and programme and project management; and behaviours for governance, leadership and management, alignment of action between NMP and the Authority and socio economics, stakeholder and industrial relations. The Authority also told us that it expected to see incremental rather than dramatic changes in performance at Sellafield over the next 12 to 24 months on the grounds that NMP’s leadership and capability improvements would take time to have an impact.\textsuperscript{28} The Authority has not given NMP a fixed timescale for achieving improvement, but plans to continually monitor performance and review its options.\textsuperscript{29}

16. Whilst the work at Sellafield is unique, the Authority told us it has extended its use of benchmarking and is using its benchmarking tool to support the assurance of the 2014 performance plan and the planned completion dates and costs for the major projects. The Authority benchmarked its approach to contracting with the private sector to the approaches employed by the United States Department of Energy, the Ministry of Defence, and the contracting approach of major infrastructure projects such as Crossrail.\textsuperscript{30} We were concerned that the Authority had not done enough to use independent benchmarks to

\textsuperscript{23} Q 401 and Ev 60
\textsuperscript{24} Qq 44, 75
\textsuperscript{25} Qq 48, 51, 65, 317, 332
\textsuperscript{26} Ev 50
\textsuperscript{27} Q 67
\textsuperscript{28} Ev 59
\textsuperscript{29} Qq 82-86
\textsuperscript{30} Qq 118-119
assess Sellafield Limited’s project costs and schedules. The Authority told us that it had
developed its benchmarking tool and cost model on its other sites and was in the first
instance using it to benchmark projects at Sellafield and was about to start applying it to
other areas, such as operations and asset maintenance. 31

17. The report by KPMG found that there was a mis-alignment between the objectives of
NMP and the Authority’s commitment to deliver value for money for the taxpayer, and
there were potential conflicts of interest associated with contracting by Sellafield Limited
with NMP’s affiliate companies.32 The Authority intentionally allowed NMP companies to
bid for supply chain contracts because it wanted Sellafield Limited to have access to those
companies’ expertise. The Authority told us that some 6% of Sellafield Limited’s trade was
with the three companies which form NMP.33 NMP told us that, after discounting trade
associated with “reachback” (which we note costs some £26 million a year), Sellafield
Limited spent around 3% of its total expenditure on the supply chain with NMP
companies, worth £29 million in 2012-13.34 NMP and Sellafield Limited recognised their
responsibilities to spend taxpayers’ money wisely and their accountability for it.35 Sellafield
Limited is legally obliged to operate its procurement under public contracts regulations
and it maintained that its contract award process was strictly controlled and ensured
transparency and equal treatment for all bidders. It has a Commercial Governance
Committee to address its obligations to manage potential conflicts of interest and its
procedures are subject to its internal audit process, which is delivered by Sellafield Limited
personnel.36 The Authority told us that where Sellafield Limited awards contracts to NMP
companies, its staff reviewed those contracts to ensure that they were run with a “clean and
fair process”.37
Formal Minutes

Monday 3 February 2014

Members present:

Mrs Margaret Hodge, in the Chair

Richard Bacon
Stephan Barclay
Guto Bebb
Jackie Doyle-Price
Meg Hillier
Stewart Jackson

Fiona Mactaggart
Austin Mitchell
Nick Smith
Ian Swales
Justin Tomlinson

Draft Report (Progress 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 to 17 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-third 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.

[Adjourned till Wednesday 5 February at 2.00 pm]
Witnesses

Monday 4 November 2013

John Clarke, Chief Executive, Nuclear Decommissioning Authority, Stephen Lovegrove, Permanent Secretary and Mark Higson, Chief Executive, Office for Nuclear Development, Department of Energy and Climate Change

Wednesday 4 December 2013

Tom Zarges, Chairman, Nuclear Management Partners, Tony Price, Managing Director, Sellafield Ltd and John Clarke, Chief Executive, Nuclear Decommissioning Authority

List of printed written evidence

1 Nuclear Decommissioning Authority Ev 44; Ev 49; Ev 59
2 Nuclear Management Partners Ev 60; Ev 61
3 Sellafield Ltd Ev 66
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Fourth Report  HM Revenue & Customs: tax credits error and fraud  HC 135
Fifth Report  Department for Work and Pensions: Responding to change in jobcentres  HC 136
Sixth Report  Cabinet Office: Improving government procurement and the impact of government’s ICT savings initiative  HC 137
Seventh Report  Charity Commission: the Cup Trust and tax avoidance  HC 138
Eighth Report  Regulating Consumer Credit  HC 165
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Oral evidence

Taken before the Committee of Public Accounts
on Monday 4 November 2013

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Stephen Barclay
Guto Bebb
Jackie Doyle-Price
Chris Heaton-Harris

Meg Hillier
Mr Stewart Jackson
Austin Mitchell
Nick Smith
Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, Jill Goldsmith, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Examination of Witnesses

Witnesses: John Clarke, Chief Executive, Nuclear Decommissioning Authority, Stephen Lovegrove, Permanent Secretary, Department of Energy and Climate Change, and Mark Higson, Chief Executive, Office for Nuclear Development, Department of Energy and Climate Change, gave evidence.

Q1 Chair: Good afternoon. This is probably the first appearance for a few of you. I am going to ask you the opening question, Mr Lovegrove. Why did you renew the contract with NMP?

Stephen Lovegrove: The formal position with the contract renewal is that it is a decision for the board of the NDA, because the contract was given for 17 years in the first place. The Secretary of State and the Department get involved formally if there is a decision to make a break in the contract.

Q2 Chair: So you were involved in the decision to renew.

Stephen Lovegrove: We were consulted and we endorsed the decision.

Q3 Chair: Why did you agree to renew the contract?

Stephen Lovegrove: We felt that, despite the poor performance on a number of the projects on the Sellafield site, there is a lot of other good work going on in Sellafield. Looking at the alternative courses that we could have taken in discussion with the NDA, we felt that the best likelihood of achieving our outcomes and value for money was to renew the contract.

Q4 Chair: What were the alternatives you looked at?

Stephen Lovegrove: The basic alternatives are twofold. One is to re-let the contract. The other is effectively to absorb Sellafield within the NDA and have it sit there for a while, and review what the right thing to do might be. We went through a very full process of looking at the various alternatives open to us. There was a very full KPMG report on the performance of NMP. A lot of work was done by the Shareholder Executive, which is the official unit that looks at this for the Department. That took a whole year to do. We were convinced ultimately by the recommendation of the NDA board that neither the market nor, necessarily, given the amount of management bandwidth that it had, the NDA was right, and that the right course was not to change course at this point.

Q5 Chair: Can you assure the Committee that it was not your view? I am trying to see who took the decision. My understanding is that the NDA wanted to change course. My further understanding is that you prevented that. Are you telling me that it was not the Department that took the view and stopped the NDA from changing course and looking at an alternative? Was the Department’s decision or the NDA’s?

Stephen Lovegrove: The Department received advice from the NDA board, which recommended that we continue with the contract with NMP as it stands at the moment, and we endorsed that advice.

Q6 Chair: And the Department did not overrule in any way at any stage during these negotiations any view by the NDA that it could go differently? The Department never overrode that? You are absolutely sure?

Stephen Lovegrove: Yes, I am absolutely sure. We certainly never overruled them. We had very vigorous—

Q7 Chair: And you never had an influence that led them towards renewing the contract?

Stephen Lovegrove: There were lots of detailed debates about the various courses that could be taken. There was a very shared view as to the pros and cons of each of the various routes.

Q8 Chair: Does “shared view” mean the Department’s view or the NDA’s view?

Stephen Lovegrove: The NDA’s view and the Department’s view. It was a dialogue.

Q9 Chair: On the KPMG report, which we only got this morning, my understanding is that that was never shared with the NAO. Why not?
John Clarke: The KPMG report was only completed very recently.

Chair: No, you had a copy of it in September.

John Clarke: We have had a draft copy of it in September.

Q10 Chair: Well, we only got it this morning because of a freedom of information request. The final copy has a September date.

John Clarke: We have spent a considerable period of time redacting what we believe was commercially sensitive information.

Q11 Chair: That information was absolutely pertinent as to whether or not you took the view on whether to renew the contract. Why was that not shared with the NAO, even in draft form? I do not know whether you want to comment, Amyas.

Amyas Morse: It would have been illuminating, knowing that we were producing a follow-up report. It certainly would have been illuminating to know of the existence of this report. I have carefully checked with my staff. As far as we know, we did not know of its existence, let alone having seen it.

John Clarke: There was certainly no intent to keep it secret. There was a lot of talk about the fact that we were producing it. It is worth pointing out that KPMG’s report assessed the performance of the site over a wide period of time. It was not advising us on the right course of action.

Q12 Chair: I understand that. The report, which I have only just shared with my colleagues on the Committee, is a terrible indictment of the contract: it says that progress on major projects within legacy ponds and silos, which no doubt we will come to, “is behind schedule and has exceeded…cost estimates. It appears this is principally attributable to SL”. Sellafield Ltd, “often as a result of poor project management…whilst savings have been made, overall schedule progress has not met PP11 targets, which over time risks costing more than efficiency savings generated.”

On Sellafield Ltd’s capability, it says that “there remain continued deficiencies in project management, supply chain management and resource allocation”. We then go on to leadership, where there has been a “high turnover of SL executive secondees and a predominantly reactive response to issues.” Governance “does not appear to be effective or unified.” On alignment, “parties in the PBO model are not aligned in their objectives, with fractures evident in many relationships due to complexity, competing priority and contractual tensions”. Interfaces “do not deliver”, incentives do not work, there is no appetite for risk and there is no stakeholder confidence. I cannot see anything good in that.

John Clarke: Essentially, the comments you related there relate to the capability of Sellafield Ltd itself. Sellafield Ltd is the enduring entity, the site licence company, the licence holder and the environmental authority; it came in to review it recently, and their conclusion was that Sellafield presents unique technological project management and leadership challenges unparalleled anywhere. So there is the inherent nature of the beast that is Sellafield. Many of the comments you related there relate to the capability of Sellafield Ltd itself. Sellafield Ltd is the enduring entity, the site licence company, the licence holder and the environmental authority—

Chair: It is wholly owned by NMP.

John Clarke: Yes it is, for the duration of the contract. But the 10,000 people work for Sellafield Ltd. One of the things we have asked NMP to do—

Chair: NMP is responsible.

John Clarke: We have asked NMP to improve the capability for Sellafield Ltd.

Q13 Chair: What have you been doing for the last four to five years?

John Clarke: I would say that the rate of improvement in that capability has been less than we would have wished. There have been improvements in capability, but not as much as we would have wished for.

Q14 Stephen Barclay: On the point of why it was not shared with the NAO, could you be quite specific? Was it that you did not think it was relevant, or that you forgot? Why was it not shared with the NAO?

John Clarke: I don’t believe that it was a deliberate decision not to share it.

Q15 Mr Bacon: You mentioned earlier that it was a draft, but the KPMG report says, “Final Report”, and is dated 11 September 2013. Indeed, there is a letter from KPMG on KPMG-headed paper to the board of the NDA dated 11 September. Plainly, this was the final report. Do you know when the NAO Report was published?

John Clarke: It was published two weeks ago.

Mr Bacon: It was 29 October, so there was plenty of time between the final report—

Jill Goldsmith: The NAO Report was on savings calculation and assurance around the savings approach rather than on the NDA’s decision making associated with the extension of the contract. In the context of our work on the savings, it was not necessary to ask the NDA—

Chair: But in the context of preparing for this hearing?

Jill Goldsmith: For the purpose of preparing for this, we were obviously providing you with some support on that.

Q16 Mr Bacon: But no one at the NDA thought it necessary to tell the NAO about this report. It is germane. The report is about the performance of Sellafield.

John Clarke: As I said, we have not made a conscious decision not to share it.

Stephen Barclay: So you made an unconscious decision.

John Clarke: I believe that we did not think about sharing it with the NAO. I have to accept that. But it was absolutely not a conscious decision not to share it.

Q17 Chair: The last report we saw as bad as this—the Department clearly saw it as well—was the report on universal credit. The reason we are taking an interest arose out of our looking at the assets and
liabilities of Government over time. We will come to it again, but this is a saga of constantly escalating costs and changing deadlines, always justified simply by the difficulty of the project. I know that it is a difficult project, and we all care passionately about dealing with nuclear waste safely, but that does not provide a sufficient excuse for you, Mr Clarke, or you, Mr Lovegrove, for the absolutely appalling waste of public money we are seeing here. It is like scattering confetti. That is what it feels like to me every time I think about it.

Stephen Lovegrove: May I make a comment about the rise in the cost? I do not wish to tread over old ground, because I know that you have heard many times that Sellafield is a uniquely challenging environment, and it is. I think it is widely accepted, certainly by the NAO in the first Report and by the Treasury in its minutes to the first Report earlier on this year, that the costs associated with Sellafield, because it is of an order of magnitude more difficult and complex than any of the sites in the NDA, are going to continue to rise over time.

Chair: Widely accepted? I don’t accept it.

Stephen Lovegrove: May I read you the two parts of it?

Q18 Chair: No, I don’t want to divert from the KMPG report. Can I take us back? Otherwise we will get into a muddle. Let’s get back on to this report. The report says that the failure on the major projects, which we looked at, is principally attributable to Sellafield Ltd, often as a result of poor project management. It talks about leadership, ineffective governance, the three companies not being aligned and interfaces that do not deliver incentives. I have read just the summary; I haven’t had time to read all 200 pages. It is just hopeless.

John Clarke: As the report says in several places—you have highlighted some of them there—there are issues around the inherent capability and capacity of Sellafield Ltd. The question is by what mechanism we best achieve improvements to that capability and capacity to bring about the improvements in performance that we want.

Q19 Chair: You brought in NMP in 2008 to do that. That is why the NDA brought in NMP. You brought them in because the capability was not there. That was the whole point: to transfer the risk and to improve the capability. Those were the two objectives.

John Clarke: We brought them in to improve capability. We did not bring them in to transfer risk—Chair: You did.

John Clarke: It is a fully cost-reimbursable, no-risk transfer contract.

Q20 Chair: Excuse me, but I am going to stop you there. We have minutes of your board meeting on 25 September 2013 where you talk about why you brought them in. This is the strategic direction: “The private sector is brought in as part of the delivery of the mission for two reasons. First, to provide capability that the SLC does not have and secondly, based on this, to transfer risk.” It goes on in these minutes: “Meaningful risk transfer at the enterprise level is not possible—”

Chair:—“in the face of significant uncertainty targets”, blah, blah, blah. So you are not transferring risk. Then there is redacted page upon page which I assume describe, in less than flattering terms, the capability. You then decide, even on that basis, to give the contract to a company which KPMG, in a very recent analysis, found to be appallingly badly lacking.

John Clarke: In our board paper we say that we generally bring in the private sector for the purposes of risk transfer and capability improvement, as you say. Elsewhere in the estate, where we have a good grip on scope, we can invite the private sector to bid, schedule and cost against that scope, as we have seen at Dounreay, and as I anticipate we will see at Magnox and the research reactor sites for which we are competing at the moment. Then we will see an element of risk transfer to the private sector.

Q21 Chair: Just remind me, what proportion of your business is Sellafield?

John Clarke: Just over 50%. It dominates it completely.

Q22 Chair: So while we accept that it may be working elsewhere, this is really the big one.

John Clarke: It is. But it is really informative to look at the rest of the estate. Where you have clarity of scope and stability of plans you can invite the private sector to bid, schedule and cost against that. At Dounreay we saw that very successfully. As a result of the competition, the estimated cost of completion came down by £1 billion; the estimated time scale to complete came in by 15 years. We anticipate something perhaps not quite as large as that, but none the less significant, at Magnox. We have already seen £1.3 billion taken out of the cost to complete at Magnox as a result of work that has gone on. The Dounreay example is germane on another level. Dounreay ceased being an operating site in the early 1990s and it has taken the best part of 20 years to get to a position of having real stability and to make the transition from operations into decommissioning. Sellafield is still an operational site for a large part of it. That transition is ongoing. What we are seeing in the rest of the estate is that the nuclear provision has gone up. It has peaked and it is coming down. We have a good grip on scope. We have good, firm plans and we are able to innovate and bring about improvements. The nuclear liability is dropping on every one of the rest of the sites. At Sellafield, unfortunately, we are still on the rise. As Mr Lovegrove said, and as was acknowledged by the NAO, we have to accept that for the big, tricky projects—14 fall into that category—there is the likelihood that there will be a further rise in cost and a further increase in schedule.

Q23 Chair: We will come later to another report I have on how well, or not, you are doing on the commercial operations. We are here looking specifically at Sellafield. I accept your comment that things are going better, I just find it extraordinary that
you renewed this. Did the Treasury approve the renewal of contract? Can we be helped there, please?

*Marius Gallaher: I am afraid I cannot help you on that one. I am not sure whether we were involved in the final decision.

*Stephen Lovegrove: I can help, if you would like; there were conversations with senior Treasury officials, who were fully sighted on what the NDA board had recommended and also endorsed it.

*John Clarke: We also have a competition programme board that the Treasury and the Department sit on.

Q24 Chair: Let me take it further for you. What is extraordinary is that you have an absolutely rotten performance. In Sellafield, you sign a contract that does not meet your specifications on either risk transfer or competence and, despite all that, you are given £200 million extra a year. The budget increases from £1.6 billion to £1.8 billion a year, which is a 12% increase at a time when everywhere else in the public sector is expected to reduce spending, and you increase the share of efficiency savings. It is mind-boggling—how can you get away with it?

I will add in a third—perhaps even worse—ingredient. Publicly, one of you—somebody—said, “We’re going to improve the performance”. And in the board minutes it says, “The combination of procurement risk arising from any change conferring a material benefit to NMP, together with the absence of any offer from NMP”—you are waiting for them to offer you something—that offers improved performance compared to that currently being experienced, means that arguments in favour of extending on any terms, other than the current contract terms, are lacking.” So you did not even try to change the terms of the contract that, as we heard in our hearing last year, led to massive fees being given to the companies, no risk transfer and no real handle on performance and cost control. And because NMP did not come forward with proposals, you decided not to toughen up the contract terms.

*John Clarke: I am not sure that that is quite what happened. We looked very seriously—

Chair: I am reading your board paper.

*John Clarke: Which is a summary of where we are. We looked very closely at modifying the contract and we chose not to modify the basic terms. The reasons for that were summarised in the board paper, but, essentially, were as follows: first, we would need to see clear evidence that it is the contract that is getting in the way of performance at Sellafield—

Q25 Chair: What does “clear evidence” mean? They get a lot of money. How much did they get last year in dividends?

*John Clarke: That has not been finalised yet, but very significant—

Chair: How much?

*John Clarke: As I said, it has not been finalised yet—

Chair: It is very convenient that it has not been finalised. Here we are in November and the financial year ended in March.

*John Clarke: It did, and that shows the great thoroughness that we are going through in terms of checking efficiencies—

Q26 Chair: What have they asked for?

*John Clarke: It is likely to be some £20 million less than it was in previous years—nearer £30 million than £50 million—but we have not finalised that yet.

We looked very seriously at what was getting in the way of performance, and whether it was the nature of the contract. Our conclusion was that you can modify the contract to some extent, and we did, to make a change, which I think you have already referred to, of taking legacy ponds and silos out of a purely efficiency-driven mechanism, which effectively incentivised cost, and into a schedule-driven mechanism. However, what we actually want in legacy ponds and silos is progress on the ground. That is not to say that cost is of no interest, but schedule is of greater interest.

Value for money is best represented by progressing these projects and making the hazard go away. So we did make a change to the contract in December 2012 to take that part of the site out of the efficiency payment, and that is referenced in the NAO Report.

Q27 Chair: I accept that there might be good arguments for taking parts out, but you took out the most difficult area, you did not seek efficiency savings and you did not put in anything else. You are living in the public sector—

*John Clarke: Oh no, we did—

Chair: Where else are the efficiency savings?

*John Clarke: The efficiency savings are applied in the mechanism in the existing contract across the rest of the estate. The prime—

Q28 Chair: Why did you not up it, though? If you were losing an efficiency saving in one area because you did not think that was viable, the logical thing for the rest of Government would be to up it elsewhere so that you get the same cash out.

*John Clarke: What we have actually done is to incentivise schedule performance. They are still incentivised not to overspend in legacy ponds and silos—

Chair: Big deal.

*John Clarke: Yes, it is the nature of the beast. We are looking to make sure that we get schedule delivered. Your comment on the extra £200 million reflects the seriousness with which the NDA and Government as a whole take getting these high-hazard facilities dealt with, and making sure that sufficient money—

Chair: So scatter more money; scatter the confetti.

*John Clarke: I do not accept that statement. I believe it is putting money on these high-hazard facilities where the tasks are non-discretionary. They need to be tackled. It is in the national interest that they are progressed in the best way—

Q29 Chair: And you have no idea how much money is for what. All you are doing is shovelling in more money without a clear plan for it.

*John Clarke: I do not accept that.

Chair: Does anyone else want to come in on the contract business?

Q30 Guto Bebb: Just to clarify, to what extent did the Department have any knowledge of the KPMG
report before the decision was made to renew the contract?

**Stephen Lovegrove:** The Department knew of the KPMG report. I did not personally, but officials had sight of it and read it.

**Q31 Guto Bebb:** And were any concerns raised by officials at this point?

**Stephen Lovegrove:** I want to be very clear. For DECC, the NDA is 60% of its expenditure, and Sellafield is 60% of the NDA’s. It is a very big and material part of the Department’s expenditure, so we look at it very closely. Am I happy where there is poor performance in terms of either letting contracts or contract management? No, I am absolutely not. I am reasonably confident that poor performance as poor performance is being addressed throughout this process. Where I want to make a distinction is between the costs that are going up because of unforeseen, unknowable factors on the ground at this very complicated site and those that could have been foreseen. It is those that we want to concentrate on for the purposes of the KPMG report.

It is important to bear in mind that the KPMG report reflects performance across the whole of the contract—the five years, effectively, since the NDA was set up. I do not recognise all of the Chair’s quotes, but I would imagine that a lot of them refer to some of the earlier performance of Sellafield and NMP. Clearly, performance was not acceptable, but it is getting better. It is not perfect—

**Q32 Chair:** I don’t think that’s right. I have not had a chance to read the report, which I’d hoped you had. All I am doing is quoting from the executive summary, where there is no suggestion that it is talking about earlier performance. “As at 31st May 2013, SL does not appear to have benefited from injection of strong leadership through PBO constructs, with high turnover of SL executive secondees and a predominantly reactive response to issues.” That was in May 2013, so do not try to raise a side issue. This is the executive summary that I am reading from. If the NAO had had sight of it, we might have been able to digest it in a more credible way.

**Q33 Guto Bebb:** There are similar comments about 2013 as well, so that is worth consideration. Time and again we are told that this is a uniquely challenging site, and nobody would doubt that. How unique is the contract compared with contracts offered in other sites that the NDA operate?

**John Clarke:** It is a similar contract to that which we started with in 2005 for all the sites. We have progressively managed on the other sites to move from a fully cost-reimbursable contract to a target-cost contract where the contractor bids schedule and cost against scope defined by ourselves, Dounreay we have already achieved, and Magnox and the research and weapons sites are to be completed by the early part of next year. Then we have a ‘pain-gain’ share arrangement, where the benefits of an underspend are shared, and the pain of an overspend is shared.

We were not in a situation in 2006 and 2007 when this contract was being constructed and the competition run, we were not in a situation in 2007 and 2008 when the contract was let, and we are not in a situation today to let a contract at Sellafield at a parent body level for anything other than a cost-reimbursable nature. When we ran the competition in 2006 and 2007, all four bidders were clear that they would only accept a fully cost-reimbursable contract, because of the nature of the unknowns and the unpredictabilities. You can only transfer risk to the private sector where you have some reasonable expectation that they can bear that risk and manage it.

**Q34 Guto Bebb:** That is the point that I am trying to get at. Clearly, one of the advantages of having these sorts of contract is the transfer of risk. What you are clearly saying is that there is no possibility of transferring risk in relation to Sellafield—

**John Clarke:** At the parent body level.

**Guto Bebb:**—so therefore the added value should be bringing in the expertise and leadership, which, according to the KPMG report, is clearly lacking. I fail to see how we can justify having this contract in place. If the risk transfer does not exist, the question therefore is: do you get the other added value items that you would be looking for? From the KPMG report, you are not getting those added value items through the contract.

**John Clarke:** Well, we are not getting as much as we would wish to have. There have undoubtedly been and continue to be improvements in capability. The management team at Sellafield has recently changed again. On the one hand—

**Q35 Mr Bacon:** Can you just remind us how many times in total in the five years?

**John Clarke:** This is the fourth managing director.

**Chair:** Four in five years?

**John Clarke:** But it is really three. The first one was a genuine—

**Q36 Mr Bacon:** We had this on universal credit—there was a death. Sometimes tragedies happen, and sometimes family things happen, but the fact is there have been four managing directors in five years.

**John Clarke:** There have, and there has been a substantial refreshing of the entire team and structure in recent months.

**Q37 Guto Bebb:** That was one of the concerns I had. You said there were four bidders in the original competition. To what extent do you think the market is operating in an acceptable fashion in terms of the competition for these contracts?

**John Clarke:** There has been a very healthy interest in all the competitions we have run. We have had multinational consortia and international companies bidding. We have, as it happens, four consortia bidding for the Magnox and research reactor sites, and each contains two or three international companies, so there is a healthy market there.

**Q38 Guto Bebb:** In view of the fact you say it is a healthy market, why was no consideration given to going out to the market again in relation to the
renewal? It appears that you are renewing this contract despite the fact there has been no delivery on the added value you are looking for.

**John Clarke:** We did consider going back to the market. As Mr Lovegrove said, we did consider dispensing with the parent body organisation and operating with Sellafield Ltd as a direct subsidiary of the NDA, which is the default position in the event of a failure of a parent body organisation. One of the key issues is that, no matter how dissatisfied we are with aspects of performance—I have to say that we are not dissatisfied with all aspects of performance; there are some areas of good performance, but there are clearly some areas of disappointing performance—if you are going to make a change, you have to have confidence that the change you make is going to bring about a greater likelihood of delivering the outcomes you want. Our conclusion at this time is that the best option, which gives the greatest likelihood of delivering the outcomes we want at Sellafield and thereby represents value for money, is to extend this contract into a second term. It was a difficult decision; it was not a slam-dunk decision. By contrast, at the risk of going elsewhere into the estate again—

**Q39 Guto Bebb:** Just to stick on this point, the question I would ask is this. Looking at the Magnox competition, we are regularly dealing with consortia, and it seems to me that the same names appear in different consortia, depending on the contract being offered. You describe this as a healthy market, but if the Sellafield contract was lost, some of the contractors working in Sellafield might then be part of another consortium. In other words, consortia are being put together, but they seem to be made up of individuals companies that turn up time and again in various consortia. Is this really a competitive market, or is it slightly less healthy than it first appears?

**John Clarke:** A number of firms have bid in several competitions, and a number of firms have specific expertise and experience in working in a nuclear environment, but new players come in all the time. In the Magnox competition, there are firms bidding that have not previously played in any of our competitions.

**Q40 Stephen Barclay:** On that point, are there any firms you have said you did not want to be part of a consortium, to keep competitive tension?

**John Clarke:** No, we have not interfered with the market in that way. We carry out a pre-qualification exercise to make sure that firms are fit and proper and capable of bidding. Therefore, we leave it to the market to decide how firms come together in consortia to bid for our competition.

**Q41 Stephen Barclay:** So you just leave it if they want to divvy up the cake among themselves to reduce competition moving forward?

**John Clarke:** We have seen no evidence of a reduction in competition—quite the opposite. We originally had five bidders for Magnox and RSRL, but one dropped out for a variety of reasons, so we have four very keen bidders, some of whom have played before in our competitions, and some of whom have not played before in our competitions.

**Q42 Guto Bebb:** Just to finish on this point, obviously, the decision was made to renew for five years; I think I am right in saying that you could have renewed for two years, but the minutes that appeared in the inbox this morning imply that it was decided to go for the five-year period because of the comparatively low cost of breaking the contract, which is about £430,000. Given the value of the contract, the cost to yourselves of breaking it is very low. Why is the consortium so comfortable with such a low break cost?

**John Clarke:** That was the figure negotiated in 2008, when the contract was let.

**Q43 Guto Bebb:** What is the value of the contract for the consortium?

**John Clarke:** In past years, they have made £50 million in fees. For the year just completed, it is likely to be rather less than that.

**Q44 Guto Bebb:** The point I am getting at is that £430,000 seems a remarkably low figure for breaking such a high-value contract. Was the consortium happy to accept that figure because they were confident that the competition does not exist out there?

**John Clarke:** We negotiated quite a high penalty for breaking the contract in the first couple of years, because significant bid costs were incurred; then it drops off. We were keen to ensure that we had the option to do other things if we needed to. The termination for convenience clause is important. We can terminate at any time for any reason. The reason we extended for five years rather than two is that the two years is there to enable us to run a competition to do something different. We have not made the decision at this point that that is what we wish to do. Therefore extending into a five-year contract term was the right thing to do. It gives NMP the opportunity to make improvements, and gives us the opportunity to monitor those improvements and develop alternatives. If at any stage we feel that the path we are pursuing is not the most likely to deliver the outcomes we want then we will change and do something different.

**Q45 Guto Bebb:** Can you assure the Committee that if you decided to break the contract somebody else—another consortium—would be willing to step in?

**John Clarke:** In the first instance, if we break the contract it is likely that the NDA would have to act as the parent for a period of time—that is how the contract is configured—but I would have high expectations that we would be able to run a successful competition for Sellafield.

**Q46 Austin Mitchell:** Which of the minimum performance standards has NMP met?

**John Clarke:** At the moment, we are predicting which will be met. The minimum performance standards all require work to have been done by the end of next March—the end of the first five-year term. We currently predict that the minimum performance standard on efficiency will be almost met—the data provided to the NAO show it is possibly a few million pounds short on efficiency. We are confident that a number of them will be met. One or two—people
plans and supply chain plans—are qualitative measures, which have a degree of subjectivity to them, so there is some work to be done around that. But by and large the majority of the minimum performance standards will be met. The important thing—

**Q47 Austin Mitchell:** Which is it failing to meet?  
**John Clarke:** I think the majority of them will be met. The important thing is to understand what the minimum performance standards are for. They place an obligation on the NDA. If the minimum performance standards are all met, the NDA is obliged to roll the contract forward into a second five-year term. If any one of them is not met, the NDA is under no such obligation.

**Q48 Chair:** So where do the major projects lie in the performance standards?  
**John Clarke:** There is not a specific major project—

**Q49 Chair:** So the most important thing is not measured and does not become a minimum standard.  
**John Clarke** A range of activities contributing to it are measured. My point is that there is no negative, in effect. We are obliged to roll the contract forward if all the minimum standards are met; we are not obliged to not roll it forward if any of them are missed. We have the option to terminate at any time.

**Q50 Chair:** Why aren’t the major projects in there?  
**John Clarke:** When the contract was let we picked a set of—

**Q51 Chair:** Why didn’t you change it when you renewed the contract to incorporate the most important, most worrying, most expensive feature?  
**John Clarke:** We are currently reviewing what the minimum performance standards for the second term will be, and we are discussing them with NMP.

**Q52 Chair:** Are we expecting to see something on the major projects?  
**John Clarke:** There will certainly be things about project management and programme management capability that will be measured. The issue is what the role of NMP is and what the role of Sellafield Ltd is. Sellafield Ltd delivers the projects on the ground; the role of NMP is to improve the capability. There are clear measures of the capability improvements required for project, programme and commercial management.

**Q53 Chair:** Of the things I wondered about over the weekend is why on earth we have an NMP. I don’t see what value it can add. If it doesn’t transfer risk or bring in capability, which it clearly has not done, why have it? If you are telling me that the way in which you will measure its performance for deciding its bonuses—you don’t call them bonuses. What do you call them? Dividends?  
**John Clarke:** Performance fees.

**Q54 Chair:** Whatever they are. The 53 million quid they got in 2011–12—it may come down in 2012–13, which is welcome. But if you don’t have that measurement in there, I don’t see the point in it. You could do this.

**John Clarke:** It does bring about capability improvement. It has injected executives into the team, and it has brought in capability. There are several examples of bringing in capability that is delivering performance on the ground. The major programme director is clearly making a difference in terms of the capability that is being brought in. The chief decommissioning officer, who has experience from Three Mile Island and elsewhere in the United States, has unique capabilities that have been brought in and, I believe, is making a real difference. I agree that we have not seen the level and rate of improvement that we would wish to have seen, but I do not accept that we have seen no capability improvement—far from it.

**Q55 Austin Mitchell:** But it just looks to me, as a pure layman in these matters, as if the contract with NMP was extended because you’re stuck with them; there was no alternative.  
**John Clarke:** No. We looked—

**Q56 Austin Mitchell:** Could you have changed it?  
**John Clarke:** Yes, we could. We looked at—

**Q57 Austin Mitchell:** There was an alternative?  
**John Clarke:** Yes, we looked at other options, including going back to the market; modifying the contract itself; and taking the parent body out of the—

**Q58 Austin Mitchell:** Did you review the alternatives as to what they could offer?  
**John Clarke:** Yes, we did. We carried out 12 months’ worth of analysis and review of those options, and our conclusion was that, at this time, the option that presents the best likelihood of success going forward is extending into a second five-year contract term.

**Q59 Austin Mitchell:** Mr Lovegrove, did you demand any assurances or guarantees from the authority when the contract was extended? You presumably agreed to the extension. Did you make any conditions?  
**Stephen Lovegrove:** We did agree to the extension; that’s absolutely right. We endorsed it, as did other parts of Government. The conditions that we had discussed with the NDA were really about improving the project management and the value-for-money outcomes that we are seeing from the management at Sellafield at the moment, so that is, I think, no different from the—

**Q60 Chair:** Are you going to measure that, Mr Lovegrove? We’re really interested there. The record doesn’t show you’ve achieved anything between you all. How are you going to measure that? What are your measurements in the next year or two, while you’re considering whether to carry it on for five years, that will demonstrate, rather than weaselly words—

**Stephen Lovegrove:** As I said on a couple of occasions, the difficulty with Sellafield is that it is not
particularly susceptible to being able to measure value for money in an orthodox—

Chair: So how are you going to measure it?

Stephen Lovegrove: In an orthodox way by being able to compete on a target-cost basis, so the kind of work that we are looking for the NDA, NMP and Sellafield to do is this additional work on assurance or benchmarking, which will allow us to feel more confident that, to the extent that we can in what are often inherently very complex and unknowable situations, we are getting the best value-for-money result.

Q61 Guto Bebb: How much does NMP earn from this contract in the first period?

John Clarke: About £230 million.

Q62 Guto Bebb: According to KPMG, in terms of capacity there is barely any change, in terms of leadership and management there is not really a significant difference and in terms of governance—failing. If the aim is to add those skills to the contract—to Sellafield—for £230 million they seem to have done very little, yet they have had a contract enhancement.

John Clarke: I do not accept that they have done very little; I accept that they have not done as much as we would have wished them to do.

Q63 Guto Bebb: Well, the report was commissioned by yourself and is pretty hard-hitting, I would argue. We have only just had this report, so maybe the executive summary is sensationalist; I don’t know. But it appears from the executive summary that they have done very little for a huge return. I accept your point that this is a uniquely difficult site, but the point you are making is that we should measure the added value that they can bring. That added value is clearly not there, according to KPMG.

John Clarke: It is not as much as we would wish to have seen. We have set demanding targets—

Q64 Guto Bebb: But then why enhance their contract? Why is it an improved contract moving forward?

John Clarke: Because when we look at the range of options open to us—we considered nine variants of what we could do, but it fell into the main options that we have described previously—our conclusion is that the greatest likelihood of delivering success comes from extending the contract into a second term. We have laid out very clearly our expectations of Nuclear Management Partners, in terms of eight improvement themes, captured under what is called the excellence plan. We have specific measures and targets in place for those, which we will be monitoring. Most of them are not directly financially incentivised.

Q65 Chair: Can you let us have on a sheet of paper what you have changed, because your directors’ meeting says you did not change anything?

John Clarke: We haven’t—

Chair: You have just said, in answer to Guto, that you have created tougher requirements for SL—Sellafield Ltd—and for NMP. What are they? They are not in the contract. You are still developing. What have you actually asked that is tougher? Mr Lovegrove talks about value for money; then he says, “Actually we can’t deliver value for money.” For the £230 million-plus, what are you going to change? Can you do it on a sheet of paper?

John Clarke: I can. I would be happy to provide you with a note, but I can run through them quickly now. We have not changed the construct of the contract, other than the change that was referred to in the NAO Report around efficiency, around the legacy ponds and silos area. The contract does not preclude us from setting clear expectations and requirements of NMP.

Q66 Chair: What?

John Clarke: Whether they are incentivised or not, we still set them.

Q67 Chair: What are you expecting?

John Clarke: Eight themes are covered in the excellence plan: organisation and leadership; project and programme management; commercial improvement; site integration; site logistics; nuclear safety and operations—I will have to refer to my notes for the final two. I would be happy to give a note covering what they are. Each of them is encapsulated in great detail in the excellence plan, which has targets and milestones for the coming year, the year after that and the year after that.

Q68 Guto Bebb: On that point, I think it has to be said that regarding these minutes of the board meeting on 25 September, you have admitted that for £230 million, the contract has not performed as well as you expected—far from it, indeed. Yet, when we are analysing the risks and opportunities moving forward, I think you spend four lines talking about the risks that the contract will still not improve. Then you spend 12 lines talking about the PR implications of the announcement, not least the fact that some parliamentary Committees will be less than impressed. I don’t think that gives me any confidence that the new contract is going to be particularly harsh. You seem to be more concerned about the tone that NMP will strike moving forward than with actually looking at the change in performance.

John Clarke: What you see is a summary paper that finally went to our board. It was my recommendation to the board. The board approved that recommendation and subsequently Government endorsed that recommendation. A whole raft of analysis underpins the final conclusion. I would not read too much into the fact that there were four lines and 12 lines. There are huge amounts of information.

Chair: That your board saw.

John Clarke: For the avoidance of doubt, our board has seen huge amounts of information, I can assure you.

Q69 Meg Hillier: Others have gone on about other providers, but I am interested in the issue around
changes of contract. Mr Clarke and, to a degree, Mr Lovegrove, because I think there is an important role for Whitehall to play.

Are there any requirements on transparency with NMP? Because it is public—they are entirely spending the British tax pound and making profits from it. Are there any requirements in the contract on leadership, given that there has been this number of chief execs? It seems extraordinary that £1.8 billion now a year is going on this contract. Yet, in a way it is cocking a snook at the British taxpayer that the chief executive is allowed to change that often. If this was any other part of the business in DECC, Mr Lovegrove, I am sure you wouldn’t be having any of it. So why are you in this case? Have you tried to do anything to solve those two issues?

John Clarke: We have spoken very clearly about the rate of change of senior executives. We feel that the rate of change has been more rapid than we would wish to see.

Q70 Meg Hillier: That is very diplomatically put, if I may say. Do you not feel more strongly than that?

John Clarke: The important thing is to have the right person at the right time, but I do think that generally speaking the rate of change has been higher than we would wish to see. We have had that discussion with NMP, and it forms part of the leadership and organisation theme in the excellence plan.

Q71 Meg Hillier: You say it forms part of this plan. What are they going to do, now that you have expressed your displeasure? And I hope you have done that in stronger terms privately than you did just now.

John Clarke: We have had some very frank discussions privately. There is a raft of issues in how they organise, how they staff the positions, and how they make sure they appropriately use what we call reachback. That is bringing in expertise from the parent companies to come in for a defined period of time, either to carry out a short-term task that takes only a short period, or come in to develop the in-house capability. I think over the first period of the contract we have seen examples of reachback people coming in and being used to fill substantive posts. That is not the optimum way to do it, so we have made changes in that area.

On your point about transparency of spending the taxpayer’s pound, in the second term, we will be moving away from direct reimbursement of the executive pay of NMP. Instead, we will be using a benchmark level of payment for an executive team. We have done benchmarking and, interestingly, it shows that we pay at about the median rate for high-level nuclear executives who come and spend a couple of years in the pleasant area of West Cumbria, before going away again, and meanwhile they earn big bucks and add to their CV. We have seen this in other bits of the civil service: people come into the public sector, boost their CV and then disappear, but leave the taxpayer—in your case, the Nuclear Decommissioning Authority—in debt and holding the problems at the end. How are you really going to stop that happening?

John Clarke: From an individual point of view, there will undoubtedly be movement of people, and I am sure that to some extent people will enhance their CV as they move around. From the corporation’s point of view—URS, Amec and Areva—not losing this contract is a big incentive. We have made it very clear that this was a difficult and close-run decision; we very seriously considered alternatives to continuing with this contract, and they know that. Equally, they know that we have a 12-month termination clause. We have expressed that in no uncertain terms. My chairman has spoken to the chief executive of URS, the lead in the consortium, and Mr Lovegrove met him—

Stephen Lovegrove: Last week.

John Clarke: Last week. My chairman and I are meeting the chief executives of the three parent body organisations at the end of this month, to make sure that, from the top of the organisations down, our areas of dissatisfaction—

Q72 Meg Hillier: That is interesting. Who are you benchmarking against?

John Clarke: We used an independent, Aon Hewitt, and they have benchmarked against 70 companies in the UK and internationally, in the public and the private sectors.

Q73 Meg Hillier: Doing?

John Clarke: Doing a whole range—energy infrastructure, major projects, chemical plants and nuclear, where appropriate—of what they believe, and it is their business, to be the best comparators for the nature of the work.

Q74 Meg Hillier: Have you had any reaction from NMP to that approach? Does this mean that you are going to have another change in chief operating or chief executive officers, if they are going to see their pay decrease?

John Clarke: I do not think that we will see pay decrease—what we are saying is that we are paying, currently, at about median rates as determined by benchmarking. We are happy to pay at median rates—we want good people. We do not want to pay over the odds, but we certainly do not want to pay under the odds, because we want to get the right people there. So, again, we have had a very robust discussion with NMP, and I am sure that we will land on an appropriate level of remuneration.

Q75 Meg Hillier: In those robust discussions, the stick that you have is that you can take the contract away in future, although you have not done so now. Is that a real stick? It seems to me that you have these high-level nuclear executives who come and spend a couple of years in the pleasant area of West Cumbria, before going away again, and meanwhile they earn big bucks and add to their CV. We have seen this in other bits of the civil service: people come into the public sector, boost their CV and then disappear, but leave the taxpayer—in your case, the Nuclear Decommissioning Authority—in debt and holding the problems at the end. How are you really going to stop that happening?

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Stephen Lovegrove: Last week.

John Clarke: Last week. My chairman and I are meeting the chief executives of the three parent body organisations at the end of this month, to make sure that, from the top of the organisations down, our areas of dissatisfaction—

Q76 Chair: Why did you not meet them two or three years ago and express that?

John Clarke: We have—we’ve met them periodically.

Q77 Chair: Then why have they not improved?
John Clarke: They have improved in a number of areas, but they have not improved at the rate we would wish to see.

Q78 Chair: Did you feel under any pressure from the Department to continue the contract?
John Clarke: No.
Chair: It was your decision?
John Clarke: I made the recommendation to the board.
Chair: It was your decision—you were not pressurised in any way by the Department to continue the contract?
John Clarke: No.

Q79 Chair: You are telling me that absolutely and categorically—it is just that I have heard completely otherwise outside. So absolutely and categorically?
John Clarke: The Department, Shareholder Executive, the Treasury and others have all, of course, inputted, but at the end of the day this was my recommendation, that at this time the right thing to do was to extend the contract.

Q80 Chair: Would you have preferred to go down another route?
John Clarke: No, at this time—

Q81 Chair: When does “this time” finish?
John Clarke: What I would expect to see now is that we will put everything we can behind making this a success. We will get behind the managing director of Sellafield Ltd and behind NMP—

Q82 Chair: How long will you give them?
John Clarke: We will drive to get the best performance we can—
Chair: How long will you give them to improve performance?
John Clarke: There are two things that we have to do: we have to monitor performance against—

Q83 Chair: Sorry. How long are you going to give them? They have had four years—since '08, so getting on for five years actually.
John Clarke: They will have had five years.

Q84 Chair: Okay, five years—you say that they have improved a bit, but I think that KPMG says that the situation is pretty abysmal. How long are you now going to give them, assuming that you felt that this time it was the right thing? How long are you going to give them until you actually say, “Enough is enough”, unless they really improve?
John Clarke: I am not sure that I have a fixed time scale. What I am saying is that we will continually monitor performance and continually review the options—

Q85 Chair: You have not told them or given them a time—I would give them a time scale. Why have you not given them a time scale?
John Clarke: Because the right thing to do is to lay out the expectations that we have of them—to make sure that there are clear milestones along the way.

Chair: You had those expectations five years ago—and four, three and two years ago.

Q86 Mr Bacon: Did you wait until you had spent £230 million before you decided it was a good idea to tell them clearly what your expectations were?
John Clarke: We have had expectations of them, and many, although not all, of them have been delivered. We are now reviewing those expectations to ensure that there is absolute clarity. I think that all of us have learned, over this first—

Q87 Chair: Was it unclear three years ago, two years ago or one year ago? Four years ago?
John Clarke: At the risk of going back five years, when this was first set up, there was a real sensitivity, particularly with the regulators, to protect the sanctity of the licensed company to make decisions. In other words, there were concerns about the potential for interference with the operation of a licensed company by the parent, the NMP, and ourselves, the NDA. There was a concern that we should both step back a little. Over the past five years, we have learned how that balance sits, and we can respect the essential requirements of the nuclear site licence and the Nuclear Installations Act, which underpins that. At the same time, we can bring appropriate direction and appropriate assistance and guidance to the licensed company.

Q88 Mr Bacon: Can I be clear? You said that you were sensitive and stepping back. Were you saying that the NMP was sensitive and was stepping back?
John Clarke: Yes, indeed.
Mr Bacon: Hence the hands-off approach.
John Clarke: Yes, very much so. In the early days, they were wary of intruding into the—

Q89 Mr Bacon: That begs the question, as the Chair said earlier, why have them in the first place? There is you, the NDA, and the company. Why have this extra layer with the NMP, which will supposedly inject leadership, expertise and all the rest, if they too will be hands-off? What is the point?
John Clarke: They injected leadership and expertise by placing—
Mr Bacon: No, they didn’t. That is the whole point.
John Clarke: They did. It may not have met everyone’s expectations, but they did put in—

Q90 Mr Bacon: “SL does not appear to have benefitted from the injection of strong leadership”. That is what the KPMG report said.
John Clarke: But a leadership team has been put in place. They were seconded into Sellafield Ltd. Under that arrangement, they make decisions in the best interests of Sellafield Ltd, as required by the site licence—

Q91 Mr Bacon: “There was no clear evidence of leadership translating into improved performance.” That is what the report says.
John Clarke: It has not been all we would wish it to have been.
Q92 Chair: Can I just ask why you commissioned this KPMG report?
John Clarke: Because we wanted an independent view of performance across the piece to help inform our decision on how to go forward.

Q93 Chair: How much did it cost you?
John Clarke: I do not have that information.

Q94 Chair: Perhaps you will let us know. Why did you choose to ignore what I think was a pretty strong report, which would have steered you in a different direction?
John Clarke: I do not believe we have ignored it. We did not ask KPMG to direct or advise us on what the recommendation would be, and they have not directed or advised us. We have taken the decision.

Q95 Chair: You had it to inform you, but you ignored it.
John Clarke: No, we haven’t ignored it. Absolutely not. We have taken it very seriously indeed.

Q96 Stephen Barclay: Would you say it wasn’t damning enough? In other words, it has informed you, but it was not damning enough to change your mind.
John Clarke: I am not sure that I would use those words. It clearly identifies areas that have not met our satisfaction, and we have been open about those areas. To make a change, you have to have confidence that the change you will make has a greater likelihood of bringing about the benefits you want. At this stage, my belief, my recommendation to the board and the board’s decision, which is endorsed by the Government, is that extending the contract into a second term represents the greatest likelihood of achieving the outcomes that we want.

Q97 Meg Hillier: It seems that the report was used as a tool by you to show that it was not only you who had concerns, but that there were ample other concerns, and so to up the performance.
John Clarke: I am not sure that it was done deliberately for that purpose, but it has had that impact.

Q98 Meg Hillier: So there was some possible benefit to whatever money it cost, although we will wait and see.
Can I just return to the point about transparency? In particular, this question goes to Mr Lovegrove, who, as permanent secretary of the Department, has a protected budget because of this challenge. What do you expect to see in terms of openness? Is the SMP FOI-able? Is it subject to the Freedom of Information Act?
Stephen Lovegrove: The NMP.
Meg Hillier: Sorry, the NMP.
Stephen Lovegrove: The NMP is not directly subject to it.

Q99 Meg Hillier: Not directly—that is pertinent to my point. How do we know—how do you know on our behalf, if we cannot know—how public money is being spent by this body? Every single pound it spends and every single pound of profit is from the taxpayer.

Q100 Meg Hillier: I can FOI anything I want from DECC or the NDA, but it is about NMP in particular: there is a budget amount in the NDA’s accounts that will tell us what is being spent, but how do we know and how can we be sure about taxpayers’ money? We have other bodies in front of us that spend only taxpayers’ money and make their profits out of British taxpayers’ money, and we are on a bit of a mission as a Committee to try to make sure that better light is shone on that. Are you doing anything in particular? You have a contract that you are looking to renew, possibly. Is that something that you could push with NMP, to try to get them to be more open about how they are spending our money?

Stephen Lovegrove: There is obviously a balance, particularly when you have a private company—both Sellafield and NMP are private companies—in observing and respecting confidential information in a commercial context.

Chair: Public money, Mr Lovegrove.
Meg Hillier: It is all public money.

Stephen Lovegrove: But I very much hear the point and very much understand the point about public money. Our first point of call is the NDA board, which obviously has fiduciary responsibilities and public responsibilities to spend the money wisely and sensibly. That is the first point that we would go to, but, as I say, we take the transparency point very much on board, and we take the accountability point very much on board, and we are looking particularly at the recommendations of the MPA as to how we can improve matters on that front.

Q101 Meg Hillier: Do you have the tools or levers you need to make NMP do this through the contract? Can you, when you renew it—if you do renew it—or when you have another contractor come in, insist on transparency clauses? It seems to me that you can if you want to. If you can, why aren’t you, and if you can’t, what levers do you need to do that?
John Clarke: I think there is great transparency about the money that is being spent by Sellafield Ltd. Although it is a private company, it operates entirely with public money. We make clear where that money has gone, and we are very happy to expose—

Q102 Meg Hillier: You have the layer that is between you and them, with NMP.
John Clarke: We do, but the only aspect that is not directly declared is that spent by NMP themselves, which is effectively the fee money. Everything else is spent by Sellafield Ltd, and therefore—
Q103 Meg Hillier: What percentage is that of the total, roughly?

John Clarke: The entire budget that we give to Sellafield Ltd, of almost £1.7 billion per year, is spent by Sellafield Ltd. The only money spent directly by NMP is their own money, effectively—money that they have earned from fees—and what they do with that is their business. They are transparent about some of it in terms of the money they spend in the West Cumbrian community—about £4.5 million per year.

Q104 Meg Hillier: That brings me to the West Cumbrian community. If you recall, when we were up at Sellafield, I was keen to hear how money is spent in the supply chain. I have visited and met businesses and trade unions in the wider West Cumbrian community in the past. We know that 85% of the supply chain money is going on the SME supply chain locally, compared with the target of 20%. There is a big shortfall there. Where does the Buck stop with that—is that you or NMP? And what is being done to improve that? It is shocking: less than half of what should be spent locally is being spent locally.

John Clarke: It is low. The target of 20% was set only earlier this year. There was no target around—

Meg Hillier: It is a very welcome target.

John Clarke: Indeed, and one that we absolutely support, but at the time the contract was let, there was no target for that and the contract requires no obligations on that. That said, all of our licensed companies, including Sellafield Ltd have accepted the 20% target by 2015—

Q105 Chair: It is one of the criticisms in the KPMG report. I am trying to find the reference. One of the criticisms is that they had not a clue about the target; they did not know what they were doing on trying to use local labour. I can’t find it, but you must know it better than I do. As I was going through it, it said that they were not taking seriously the demand to do it.

Meg Hillier: They certainly weren’t.

John Clarke: We know that of the approximately £1 billion of the £1.7 billion spent at Sellafield that is spent in the supply chain, approximately 30% is spent in the Cumbrian supply chain. Analysis has been done independently that will verify that. Sellafield Ltd did not have a specific measure of how much goes to SMEs. As I say, the contract did not specify that. Once the 20% target had been agreed through the Cabinet Office, and once we had passed that target through to the licensed companies, the first thing that the licensed companies did was to measure the proportion that is being spent with SMEs.

The second thing is that they have all committed to meeting the 20% target by 2015. We have established a national SME forum and a set of regional SME forums. As it happens, we have a supply chain conference next week that the Minister is attending and opening, and she is actually chairing the national SME forum as well. The Department and ourselves have taken this very seriously. I must say that the licensed companies and the supply chain—in particular the tier 2 supply chain, because most of Sellafield’s money is directly spent with the big tier 2s, and it is from that that you get the flow into the SMEs—have absolutely signed up to it. I met the chief executives and finance directors of many of the tier 2s some months ago and I am seeing them again in January to reinforce the importance of this.

Q106 Meg Hillier: This is good news if it happens, so I have a couple of questions—

Chair: But it is not happening. Meg. Meg Hillier: Chair, let me finish. What would success look like? Having conferences is all very well, but what does success look like if what you have laid out is going to achieve what you want to see?

John Clarke: In the first instance, it would be the achievement of 20%—£200 million in round numbers—being spent with SMEs. Beyond that, Sellafield Ltd is working hard, with our assistance, to ensure that we provide the maximum opportunity for the local supply chain to benefit from the work at Sellafield. We clearly have to comply with public contracting regulations, but within those limits we have to ensure that the local supply chain is well equipped to compete and to deliver value.

Q107 Meg Hillier: That is great. So they can take the crumbs from the Sellafield table, which is a lot when you are spending £1.7 billion a year.

John Clarke: £300 million has already been spent in Cumbria. That is more than crumbs.

Q108 Meg Hillier: It is. The supply chain can take up that business, but what about growing new business and new job opportunities? As someone who represents an inner-London constituency that received a lot of investment from the Olympics, it strikes me that the amount of money that goes into Sellafield could fund regeneration projects, such as new rail lines and all sorts of things, up and down the country. We have this task at Sellafield, but we should be seeing a spin-off from that money that is of much bigger benefit to growing new business.

John Clarke: We should.

Meg Hillier: In all your plans, what focus is there on growing new business? That is probably a question for Mr Lovegrove as well, because it is not just about Sellafield; it is actually about businesses that could create green industries or other green energy solutions that could be exported around the world.

John Clarke: There are specific plans at Sellafield—Mr Lovegrove can speak about the national situation. We have something called Britain’s Energy Coast, which is a consortium of the public and private sectors looking to achieve low-carbon growth that has had real successes. We are learning from the Olympic Delivery Authority. The NDA has recruited a senior ex-member of the ODA and Sellafield Ltd has engaged Mace, which was one of the key delivery partners of the ODA, to ensure that we are taking the learning as to how we can best do that. There are a whole stack of examples of where local firms have grown on the back of Sellafield and are now exporting elsewhere. We have West Cumbrian firms operating at Fukushima at the moment on the back of work that they have done at Sellafield and the skills and expertise that they have developed. West Cumbrian firms are operating in Eastern Europe at Chernobyl,
for example. There are real examples of where growth has been achieved. Is it sufficient? No, it is not. Do we wish to see more? Yes, we do.

Q109 Meg Hillier: Mr Lovegrove, what are you doing to ensure—
Chair: Can we move on? I have given you a really good go at this.
Meg Hillier: This is an issue that I have been following for some years.
Chair: It is slightly off the point.
Meg Hillier: It is a lot of money.
Stephen Lovegrove: It is something that we take very seriously. It is an area that we need to get right, because we obviously want to ensure that as much of the supply chain activity on new nuclear build occurs within the UK as well. The nuclear industry strategy is at the heart of this.

Q110 Guto Bebb: I have several questions on that specific issue, but I would first like clarification on something. Is the 20% target included in the renewed contract?
John Clarke: We have not placed it in yet, but we will consider it.

Q111 Guto Bebb: If the contract has been renewed, when would that be possible? It is a key point from a parochial, North Wales point of view with the decommissioning of Trawsfynydd and the new building, so 20% would obviously be a great target. However, if that is not in the contract, you can have a lot of warm words, but that does not necessarily mean that it would be delivering.
John Clarke: It doesn’t, but even if it is not in the contract, we have made clear that a number of the activities that I outlined before are not explicitly in the contract but are very clear requirements. On your point about North Wales, typically about 17% of the Magnox spend is already with SMEs, so they are starting from a higher base point.

Q112 Stephen Barclay: I may have missed this in your earlier answer to Guto, Mr Lovegrove, but can you clarify the date at which you were first aware of the KPMG report?
Stephen Lovegrove: I was aware of the KPMG report—I would have to go back to be absolutely clear—around late August or early September, I think.
Stephen Barclay: Late August or early September.
Stephen Lovegrove: Probably, yes.

Q113 Stephen Barclay: It deals with 60% of 60% of your budget.
Stephen Lovegrove: That is correct, yes.

Q114 Stephen Barclay: So it is quite an important issue for you.
Stephen Lovegrove: It is an important issue for me, yes.

Q115 Stephen Barclay: But again, like Mr Clarke, you did not think it was relevant until today’s hearing.
Chair: Which is which one on our list?
Stephen Lovegrove: It is the box encapsulation plant.
Chair: Okay, I have found it. Go on.
John Clarke: The box encapsulation plant; and what was the combined import-export facility is now the direct import facility.

Q121 Stephen Barclay: And which countries did they compare with?
John Clarke: We have looked specifically at our approach.

Q122 Stephen Barclay: Sorry, Mr Clarke, I have asked twice already. I am really interested in international benchmarking. Can you talk me through the international benchmarking?
John Clarke: We have looked at how the US DoE operates and, where we can, looked to get benchmarks on performance. For things like—

Q123 Stephen Barclay: Which of these projects have you benchmarked with the US?
John Clarke: We have not directly benchmarked these projects because they do not lend themselves to direct comparators. They lend themselves to a general approach.

Q124 Stephen Barclay: Do any of these major projects lend themselves to international comparators?
John Clarke: EPS3 lends itself to comparators. Interestingly, that is one where we let a fixed-priced contract to the market. As you will see from that, the cost has been essentially held.

Q125 Stephen Barclay: Which country did we compare with on that?
John Clarke: We did not compare internationally on that. We had a comparator from within the UK.

Q126 Stephen Barclay: Are there any of these major projects that you have compared internationally?
John Clarke: Of the 14, directly, no. They do not have direct international comparators.

Stephen Barclay: Not one of them?
John Clarke: Not of those, no. You can compare elements of them, which we have done. I have done that particularly with the United States Department of Energy.

Q127 Stephen Barclay: Okay. Could you explain this? If we take, as an example, the Magnox swarf storage silo, the design gate was passed in March 2007 with an estimated cost of £243 million. Five years later, that had increased by £144 million to £387 million. One further year later, it had jumped a further £342 million, which is a massive increase in a year. Could you talk us through that, please?
John Clarke: The Magnox swarf storage silo is a building that dates back to the 1950s. It has a whole range of highly radioactive miscellaneous nuclear waste tipped into it through a hole in the top of 21 compartments. It was not designed for the waste to be retrieved from it at all. What has been going on over many years is the design of extremely large machines to sit on top of the silo, which is not designed to take such weight on top of it, and dig down into the silo, grab waste from it and bring it out to process it. What we are learning as we go on is the extent of the complexity of that, particularly given the less than perfectly characterised waste inventory there and the concern to make sure that safety is maintained all the time—operating in an inert environment, for example.

Q128 Stephen Barclay: That explains, possibly, why it has gone up more than 50% and why it is seven years later than originally planned. What it does not explain is why, just in the last year alone, the cost has almost doubled. Could you talk us through the last 12 months? What is it that we did not know in the first five years, when it increased by £144 million, but then has suddenly become known in the last 12 months?
John Clarke: We have seen issues with the safety analysis of dealing with the pyrophoricity of this material—the likelihood of it spontaneously combusting in air. The nature of the material is such that, in air, it can spontaneously combust. The understanding of that has been improved considerably, which has led to extensive modifications and changes to the design of the plant required to deal with it. There have also been issues with the supplier of this kit—there is a single supplier that has been in existence for a long period of time. They have had difficulties with the manufacture of that, and that has resulted in a significant cost increase as well. Because projects are taking longer to resolve some of these problems, the annual ongoing cost of maintaining the site until they are ready to retrieve has been over a longer period of time.

Q129 Stephen Barclay: But it is not just about major projects, is it, Mr Clarke? If we turn, for example, to the pile fuel cladding silo—and I do fully accept that these must be incredibly complex projects to deal with—at the project initiation date, 2005, the range was from £150 million to an absolute maximum of £495 million; and yet in the last year alone, the estimated cost has gone from £341 million to £750 million. That is a £409 million increase in one year—more than double—yet the estimated delivery time is not until January 2023, so there is significant risk of further escalation. Again, why, in the last year alone, has that increased so significantly?
John Clarke: On this silo, we have been building very complex civil engineering structures over existing highly active facilities. In parallel with that, the teams have been designing the equipment to sit on that civil structure to remove waste.
The starting point with all of these is that we operate in accordance with standard engineering design codes and practices—Stephen Barclay: But this has been running since 2005.
John Clarke: It has, but—Stephen Barclay: I am talking about the last year. Something significantly changed in the last year compared to 2005.
John Clarke: Absolutely, and what has happened is that, as the design has progressed, we have identified that the complexity of the equipment, in order to meet standard codes, is such that there is a real risk that
this equipment may not function at anything like the rate we want it to operate at. So what is happening now is as you take a step, you do some further review and you have to step back. What we are finding on the pile fuel cladding silo is that we—Sellafield Ltd—are actually now looking at a so-called plan B, a somewhat simplified approach that removes some of the interlocks and some of the features that you would normally have associated with discretionary plant, and saying, “This is non-discretionary plant. We would apply some slightly different standards.” We are pushing at all times the boundaries of safety case here, working with regulators, working with ourselves, working with SL, to try to make sure that we have the optimum solution, but to some extent these are—I was going to say, “Suck it and see”. That is probably not quite accurate, but we are very much at the boundaries of what is possible here, and as you run up against something in detailed design and find that it is not going to operate as you thought it would, then you have to go through extensive review and revalidation. I think there is the prospect of a simpler, better solution emerging—

Q130 Stephen Barclay: I was just going to come on to that, but before doing so, these sudden jumps in cost were booked or listed as September 2013, so presumably you were not fully aware of these increases as of March 2013. Would that be fair?

John Clarke: Yes, that is fair.

Q131 Stephen Barclay: Right. So when your provisions increased from £36.6 billion to £42.7 billion, presumably that was not including these massive increases.

John Clarke: That is correct.

Q132 Stephen Barclay: So what is your current revised estimate?

John Clarke: We are revising that at the moment. There will be another estimate next year. We have not yet completed the review of all the projects for the update of the performance plan. That will be completed at the end of the financial year, and we will be in a better position then to assess the impact on the nuclear provision—

Q133 Stephen Barclay: Sure, but in terms of the working estimate, do you have a figure?

John Clarke: I don’t have a precise figure, but I have—

Chair: You must have a ballpark figure.

John Clarke: I think it will go up by possibly a handful of billions. I know that sounds a bit casual, but I wouldn’t want to be more specific at this point, when we have not concluded the detailed work.

Q134 Stephen Barclay: It just seems we have got a contract where we pay £230 million in fees; we haven’t transferred the risk; the KPMG report shows we haven’t got the expertise; and we are writing off more and more billions. It is not really value for money.

John Clarke: Whatever option we took in terms of the contract decision, we would still be faced with the inherent complexity and uncertainties of these projects. So the cost of these projects is going to be what the cost of these projects is, to some extent.

Q135 Stephen Barclay: Mr Clarke, no one is disputing the complexity of the projects and the challenge of that, but some of these projects are projects that have been running since 2005 and these cost increases are massively going up in the past 12 months—in fact, being booked as of September—at the same time as you are rolling the contract over for a further five years, and so they could go on increasing. That is the issue.

John Clarke: I take that, but I think we have to differentiate those costs that have gone up as a result of the nature of the work and those costs that have gone up as a result of performance. When we spoke at the Committee last November, we spoke specifically around evaporator D and I acknowledged there that evaporator D was primarily a performance issue, and as a result of that Nuclear Management Partners have had a significant reduction in their fee. If you look at one of the other projects that was looked at by the NAO in their Report—the separation area ventilation project—you will see that there are two elements drawn out in the NAO Report.

Stephen Barclay: We will just focus on today’s report; that is a different Report.

John Clarke: Well, this was the NAO Report for this Committee, the one published last week. It states there are two aspects to why the cost of the separation area ventilation went up. One is down to ground conditions. There is a whole raft of equipment that needs to be installed, and as you get into looking at the ground conditions you find that they are not as they are expected to be. We reviewed that, and because that is about the nature of the site, we have given relief to Nuclear Management Partners; they will not be penalised for that. It would be wholly inappropriate to penalise them for something that exists inherently on the site. By contrast, where the increase in cost has been down to performance, while we have had to pay that because it is a cost reimbursement contract, they have suffered a negative efficiency and as a consequence they will take a hit on their fee for that. So I think you will find—I think the NAO concurred—that we take appropriate action to differentiate between inherent conditions and performance. Where it is inherent conditions, it is what we get. Where it is performance, we take appropriate action in accordance with the contract.

Q136 Stephen Barclay: What builds on that, if we are going to deliver the savings, is using technical innovation. What is the current budget for technical innovation? Is there anything specifically set aside for that, or is it just merged in the wider budget?

John Clarke: No, Sellafield Ltd has a budget. I do not know exactly what that budget is, but the NDA itself has an extensive technology budget, which also leverages other national and international moneys available for that. We optimise that across the estate to make sure that we are doing appropriate research
that will be of benefit. We work with the National Nuclear Laboratory; we work with the Nuclear Advanced Manufacturing Research Centre; we work with the skills academies; we work with the university of Manchester Dalton facility. There is a range of activities looking at things that would directly benefit the mission of the NDA.

Q137 Stephen Barclay: Is that going up or staying the same? What is happening to that?

John Clarke: The NDA budget itself—

Stephen Barclay: No—on technical innovation.

John Clarke: Yes, the NDA technical innovation budget has remained stable, despite considerable pressures during the last spending round.

Q138 Chair: Can I switch tack a little bit? Is Sellafield an asset or a liability?

Stephen Lovegrove: It is a liability.

Chair: In your accounting it comes as a liability.

Stephen Lovegrove: In the national account it is a liability, yes.

Q139 Chair: Right. Let me just take two other areas. We have a report, which was given to us, about the commercial operations. Even if we leave aside the really difficult projects that Steve has been discussing, let’s look at the commercial operations. This is a report from no doubt not your favourite people: Cumbrians Opposed to a Radioactive Environment. They looked at three: the THORP reprocessing, Magnox, and the waste vitrification canisters. What is again noticeable is that hardly any of them ever meet the targets.

At THORP: in 2012–13, the target was 408 tonnes for reprocessing. That would be something they would make money out of. They actually got 228. I accept the year before they had gone over target. At Magnox, they have never met their target since 2004 and they are at about half of their target of 695, at 383. If you look at the waste vitrification canisters, they have hardly ever met their target. Out of 197 tonnes they are producing 148. I assume that is tonnes, is it: it won’t be, for the canisters, will it?

John Clarke: That is containers.

Chair: Leaving aside the really complex things that we looked at when we came up and visited you, this is stuff that would minimise your liability if they simply performed to target.

John Clarke: These operations are very different, as you say, from the major projects; but they are not simple operations, and, again, they are fairly unique in the world. There are really only the French who carry out—

Q140 Chair: They are your targets.

John Clarke: They absolutely are our targets. What I am saying is these are not operations done by dozens of people. They are done by a very small community of people. Operational performance has basically followed—I think it is shown in the KPMG report; it is something of a sore tooth—we tend to have quite a good year, followed by quite a bad year. What it reflects is the inherent fragility of those plants. If we take the Magnox—

Q141 Chair: What is going well? We dealt with the very difficult ones. I hear that, and I am sure you have got good explanations, but on THORP, the table is for 2000 to 2013: it met its target five times. Magnox in the same period, it met it twice; and waste vitrification, it was three times. I accept it is difficult; I accept it is unique, but these reprocessing capabilities have been going for well over 10 years now, so you would have thought that somehow they would have got closer to meeting their targets a bit more often than they do.

John Clarke: It is considerably longer than 10 years; in the case of Magnox, it is 49 years. That is one of the issues. We have old and fragile plant.

We set stretching and demanding targets and we incentivise NMP to achieve those targets. When they do not, they do not receive the level of fee. A way of hitting targets all the time is to set lower targets, but I don’t think you are suggesting that.

Q142 Chair: I accept that, but this is quite a lot out: 408 to 228, 695 to 383 and the other one, which is the closest, is 197 to 148.

John Clarke: My statement in last year’s annual report and accounts referred to disappointing performance in the operating plants. The previous year was a good year. I do not have the figures—

Q143 Chair: No. It was a better year on THORP, but it was not a good year on the two, although they were closer.

John Clarke: From memory, it was 602 tonnes of Magnox reprocessing, which is a very good level of performance. We set a very stretching target of 800 tonnes and that was not achieved, but 602 was a good level of performance and we would be happy to get that this year.

Amyas Morse: Going back, but on targets and performance measuring, you were saying that without changing the contract going forward you would be able to set clearer expectations for improved performance. Would it be possible for you to share with us the actual metrics you are likely to use to know whether they have been attained?

John Clarke: Absolutely.

Amyas Morse: Good. Thank you.

John Clarke: I am very happy to do that.

Q144 Austin Mitchell: I just want to give Mr Higson a chance to sing an aria for the Office of Nuclear Development as he has had to remain silent throughout. This is important because of the lessons learned and the effect on future developments. What lessons have been learned when it comes to a contract with Electricité de France and future contracts to be negotiated about the costs of decommissioning and waste disposal? Cumbria council said when we were there that it would accept nuclear waste, but it will not now accept it. Is any account taken of that in Electricité de France’s contract and the costs? On the difficulties of decommissioning, will the French be allowed to sit back and say, ‘Thank you for the money, which is some compensation for the hundred years’ war, but we’re off now, so over to the Nuclear Decommissioning Authority’? That’s the question.
Mark Higson: I would make three points. Clearly, it is important that we learn from experience. My first point is that there needs to be a clear plan to decommission new-build power stations. That distinguishes us from the past when facilities were built with no clarity about how they would be decommissioned. There needs to be a plan, and it needs to be approved by the Secretary of State before construction of a nuclear power station can start.

Secondly, there needs to be a clear plan to cover the funding of the decommissioning of new build. Again, the plan must be approved by the Secretary of State. It must be based on a prudent assessment of costs, and will be subject to approval only if the risk to the taxpayer of picking up the tab is remote.

Thirdly, there is inherent uncertainty in the costs of waste management and the geological disposal facility, so we have a mechanism for constantly assessing and reassessing those costs. It is a bit like a pension fund where the liabilities and assets building up in a fund are to some degree uncertain. You constantly assess them and to the extent that there is a gap, contributions to the fund may need to be increased. Conversely, if costs have come down, money into the fund may be reduced.

Q145 Austin Mitchell: Is it expected that the costs of dealing with pressure water reactors will be less or greater? Sellafield grew like Topsy, and is higgledy-piggledy where all sorts of things came together. I was impressed by the efforts to deal with it, but depressed by the scale of the problem. Will the advanced heavy water reactors be more difficult to deal with than Sellafield, or is Sellafield a one-off?

Mark Higson: The thing that distinguishes Sellafield is that it is a closed-fuel cycle involving reprocessing. The plans for nuclear new build are quite different. We expect it simply to be a once-through fuel cycle. That means that fuel goes into the reactor, comes out as spent fuel and is stored in ponds at the reactor site for a number of decades. When the geological disposal facility is available, it is encapsulated and put there. You will not get any of the reprocessing difficulties or facilities that we have at Sellafield, many of which relate to past history, including military activities.

Q146 Guto Bebb: I hope my hearing is not letting me down. Have we examined why the ponds and silos have been excluded from the mechanisms for the performance enhancements for the contractor in relation to the efficiency savings available? Can you clarify that?

John Clarke: We decided that the pursuit of efficiencies as the prime incentivisation mechanism was inappropriate for legacy ponds and silos, where our prime concern is the pursuit of schedule—getting the job done as quickly as we can. That does not mean that money is no object, but it does mean that schedule is more important in an overall value for money sense than saving money in the short term. We felt that a modification to the contract in that area was appropriate so that we could explicitly and primarily incentivise schedule ahead of cost. There is a cost incentive for them as well, but it is dominated by schedule in that area. For the rest of the site, it is dominated by cost rather than schedule.

Q147 Guto Bebb: What specifically happened over the past five years to change how you looked at the ponds and silos?

John Clarke: We had seen examples where—I suspect subconsciously—decisions were being taken to focus on saving costs in-year rather than making schedule over the slightly longer term. Our view on balance was that that was driving shorter-term rather than longer-term focus, and that a focus on schedule was likely to give the longer-term focus required for these specific projects.

Q148 Guto Bebb: The Report has raised concerns that the fact that those are now excluded from how the rewards to the contractor are calculated might result in the temptation to load cost on to that specific area of activity. Your own internal auditors are claiming that that is not the case, and clearly you are very aware of the risk. As yet, however, I understand that there has not been any independent assessment of the procedures that you have in place to ensure that costs are not disproportionately loaded on to this particular area of activity.

John Clarke: There is always a risk, if you have two parts of a site operating different systems, but we measure the level of overall efficiency across the whole site. The NAO Report says that by doing that, we avoid the risk of claiming efficiencies and then having costs appear in a different pot. We will certainly be aware of that, and I am sure it is something that the NAO will look at when it does its end-of-year accounts, and no doubt when it comes back to look in future. It is something to be aware of, certainly, but I do not think it is insurmountable at all.

Q149 Guto Bebb: The NAO Report specifically says that there has not been an independent assessment of this. Are there any plans to undertake such an independent assessment? Clearly, it is a concern that you are well aware of, but would an independent assessment help the management of the site?

John Clarke: To some extent, the assessment of efficiencies and the assessment of performance on the site are our job. That is what we do. We are subject to oversight by the Department and the Shareholder Executive on their behalf, and we are subject to oversight by the National Audit Office, but we have not specifically commissioned an independent audit of that.

Q150 Guto Bebb: A local Member has highlighted that there are concerns that having that different approach within the site might be difficult in terms of ensuring a cross-site approach that would work more effectively. What steps have been taken to ensure that the decision to change the way that the ponds and silos are treated does not detrimentally affect the overall management of the site?

John Clarke: I don’t think it really has the potential to cause a problem in that area. I think the prime driver for that—
Q151 Guto Bebb: Just on that, are there any risks whatsoever in the decision you have made? Does it create any risks to have a different approach across the site?

John Clarke: I don't believe it does. The prime driver for making progress in legacy ponds and silos isn't the incentivisation driver, but the safety and environmental imperative required by legislation. That sits there for Sellafield Ltd above anything we do by way of incentivisation.

We are trying to ensure that we have alignment behind that. Moving to a schedule-based focus rather than a cost-based focus in this critical area enhances that alignment and therefore gives us a greater likelihood of achieving the outcomes we want.

Q152 Chair: Can I ask you a few more questions, which I think will tidy up the other issues that we've got to cover?

We have never covered plutonium with you. Is the plutonium an asset or a liability?

Stephen Lovegrove: I will pass to Mark, if I may, but that is a difficult question to answer conclusively and in the long term, outside final decisions about what we are going to be able to do with the plutonium.

Mark Higson: Our currently preferred option for dealing with the plutonium is to build a MOX plant and use the fuel in new-build power stations in the United Kingdom. The value of the fuel will be less than the cost of building and running a plant on current assumptions. On that basis, it will be a liability.

Chair: Say that again?

Mark Higson: The value of the fuel, we would expect to be less than the cost of operating and building the MOX plant.

Q153 Chair: But you still want to build it?

Mark Higson: Because it is a route for disposing of plutonium and putting it beyond access.

Q154 Chair: My goodness. Just tell us so far, on the MOX plants you have had, how much has that cost us to date? What is the total cost of building and running them—without much success—and now closing and, presumably, having to dismantle them? How much have we spent so far?

Mark Higson: That is clearly a separate question from what we do with the plutonium that we already have.

Chair: I understand that.

Mark Higson: The answer is about £1 billion.

Chair: I think we have spent £1.4 billion so far.

John Clarke: Yes, we did, on a previous MOX plant that had significant problems with it.

Q155 Chair: Which we could not get to operate properly. How much are we spending a year just keeping the stuff safe?

John Clarke: I don't have that information.

Q156 Chair: I have it down as £80 million. Is that massively out?

John Clarke: I would be happy to confirm that outside the Committee.

Q157 Chair: How much are we paying to look after other countries' plutonium?

John Clarke: We are paid to look after other countries' plutonium. The contracts are quite explicit that we are paid for the receipt of spent fuel, its processing, the storage of wastes—uranium and plutonium—and the eventual repatriation of it.

Q158 Chair: Okay. Sugar. We are considering building a new one, although the cost of building one would be more than the benefit of the fuel. Am I right in thinking that Sizewell is the only place that can currently use this MOX fuel?

Mark Higson: We expect MOX fuel to be utilised in new PWRs built on a new plant.

Chair: But it is not being utilised in the EDF one.

Mark Higson: Sorry?

Q159 Chair: You are expecting it to be utilised where?

Mark Higson: In power stations yet to be built. The EPR reactor at Hinkley, for example.

Chair: Oh my goodness. We have spent £1.4 billion so far. We don't have the power stations that can utilise MOX, but we are still considering building one, although it will cost more than the fuel that we get from it in the power stations that are yet to be built.

Mark Higson: Clearly, it would be unwise to start building a new MOX plant unless we were reasonably satisfied that there was a market for the fuel produced.

Q160 Chair: When are you taking the decision, given that we are paying not just to look after our tonnage, but to look after Japanese and German tonnage?

John Clarke: We are paid to look after foreign material.

Chair: Still paid now?

John Clarke: Correct.

Q161 Chair: When are we taking the decision?

Mark Higson: There will need to be a pause for at least a couple of years. During that period, we will work with the NDA to assess alternative routes, including PRISM reactor and the possible use of CANDU reactors.

Q162 Chair: That is another one going up on your upward curve.

I am almost at an end, although I do not know if other Members want to ask anything else. The only other thing I wanted to ask about—this question is probably to you, Mr Clarke—was this unacceptable practice of NMP charging on this sample of expenses claims. Six hundred and six expenses claims were looked at, and they charged over a quarter of a million pounds that could not be justified, including—I cannot believe this—a £714 bill for a cab to take a cat. [Interruption.]

“Where to?” I am being asked.

John Clarke: It was a range of people, including a cat. The point is that the NDA initiated an audit of expenses incurred by the Sellafield executive team, particularly those who were implanted by Nuclear Management Partners. We found that there was substantial and wholesale misallocation of expenses to
a Sellafield Ltd account and to a Nuclear Management Partners account. I do not believe that there was anything other than a mistake in that. I do not think it was a deliberate intent. As soon as it was pointed out, the very morning that we discovered it, the managing director and the finance director of Sellafield Ltd were in my office in West Cumbria. They were clearly shocked by what we had found. They took very swift action; they reimbursed the money immediately and they switched their system to make sure that all management expenses are defaulted into an NMP account until such time as it is demonstrated that they are legitimate Sellafield Ltd claims, in which case they are put over. What we saw was that a range of expenses that should have been borne by NMP had inadvertently been—

Q163 Chair: The US Masters golf tournament being one, presumably.
John Clarke: It should have been borne by NMP and has been paid for by NMP. The system was clearly not operating with appropriate governance. It has been improved, and I believe everything has been put right.

Q164 Chair: Are you now keeping a better eye on it?
John Clarke: We will keep a better eye on it. We operate on an audit basis. We are a relatively small organisation of 200 or so people, and there are 17,000 people on the estate. We audit a range of activities, and it was as part of that audit that we found this situation. NMP and Sellafield Ltd rapidly put it right, and we will, of course, keep an eye on it going forward.

Q165 Chair: Okay. Last year when we saw you, we expressed concern about Sellafield Ltd awarding contracts worth £54 million to the constituent companies of NMP. Have you taken any action to control that?
John Clarke: We have behaved exactly as we said we did last year. The contract allows affiliate companies to bid for work at tier 2 at Sellafield. We make sure that all contracts that are let at Sellafield are reviewed at an appropriate level by ourselves, and we are content that contracts have been achieving—

Q166 Chair: So what proportion of contracts are now being executed by the three? NMP, through Sellafield, awards a contract to a constituent company of NMP, which I do not think is on. What is the proportion now? We were at £54 million last year, but what are we at now?
John Clarke: I do not have a number in terms of millions, but I believe that it is about 6% of the contract.

Q167 Chair: It was 6% last year. Has it gone up?
John Clarke: No, I believe it is still about 6%.

Q168 Chair: Can you send us a detailed note on that? I do have concerns, and I think people should choose.
John Clarke: Yes, we can.
Chair: I would also like a detailed note on the KPMG costs.

Q169 Stephen Barclay: On that, just to be clear, Mr Clarke, are you saying that you see no objection and, therefore, regardless of what the note says, nothing will change on that?
John Clarke: When we let the contract, we specifically did not preclude affiliate companies from bidding. Indeed, if you take Areva as an example, Areva have specific expertise that we would wish to be accessible at tier 2. If the very act of having them at tier 1 precludes us from having access to them at tier 2, we suffer from that. We want Areva, as an example—

Q170 Stephen Barclay: Just to be clear, when you renewed, you did not vary the contract to preclude that based on the discussion last year?
John Clarke: We did not.

Q171 Stephen Barclay: So, regardless of what the note says, in essence the practice will continue as per previous years, for the reasons you have set out?
John Clarke: Because we think that that gives us the best outcome. What we do do is make sure that all contracts are let following proper, appropriate and fair competition.
Chair: We will be inviting NMP and Sellafield Ltd to give us further evidence at a hearing we have scheduled for December. We decided too late to have them today, but we expect to see both of them here at an evidence session in December. Thank you for your attendance.
Wednesday 4 December 2013

Members present:
Margaret Hodge (Chair)
Mr Richard Bacon
Stephen Barclay
Guto Bebb
Meg Hillier
Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, Jill Goldsmith, Director, and Marius Gallaher, Alternate Treasury Office of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
Assurance of reported savings at Sellafield (HC 778)

Examination of Witnesses

Witnesses: Tom Zarges, Chairman, Nuclear Management Partners, Tony Price, Managing Director, Sellafield Ltd, and John Clarke, Chief Executive, Nuclear Decommissioning Authority, gave evidence.

Q172 Chair: Welcome. Thank you all for coming and thank you, Mr Zarges, for returning and for coming all the way from the States for this hearing. Thank you also for sending us the full copy of the report. For us as a Committee, this is a key value-for-money exercise. You might help us Mr Clarke: the current guesstimate of how much we are talking about here, over time, is now in the region of—

John Clarke: It is in the region of towards £50 billion.

Q173 Chair: Why have I got a bigger figure in my mind?

John Clarke: That is discounted versus undiscounted.

Q174 Chair: And the non-discounted is?

John Clarke: I would have to confirm that; into the seventies.

Q175 Mr Bacon: You mean one is cash and the other is the net present value of that money?

John Clarke: Correct.

Q176 Chair: Okay, the figure I have in mind is £70 billion.

John Clarke: That is the undiscounted number.

Q177 Chair: That is why this is a huge contract with never-ending increases in cost and never-ending delays in time, which is why we are hugely concerned. First, Mr Zarges, I should say that, having looked at the KPMG report, just to put it into context, we recognise that there have been advances in safety, particularly on this site. That is a welcome improvement—it is good to see that. The consortium contracts are funded by the taxpayer. Mr Zarges, do you think there should be transparency and open accountability for how you spend that money?

Tom Zarges: I do, and I believe there is.

Q178 Chair: And do you think we have a right to know when things go wrong?

Tom Zarges: Of course.

Q179 Chair: Okay. So, Mr Clarke, why is it commercially sensitive for us to know that the review undertaken by KPMG, at a cost to the taxpayer of a quarter of a million pounds, talked about failures in NMP leadership? NMP leadership appears to have intervened to a very limited extent on the major projects. NMP leadership has intervened very little on the ones we should be making money from, out of Magnox—the vitrification and the THORP reprocessing. It is a publicly funded contract, so it is our right to know whether we are getting value for money. Our interest in this Committee is to know whether we are getting value for money. Why, therefore, is it not relevant for us to know that there are real question marks—I accept by KPMG, but it is a pretty thorough report—over NMP leadership?

John Clarke: The points that we redacted, we redacted on the basis of two factors. One was what we believed to be commercial confidentiality, and the second was the protection of individuals. There were named individual comments in it. We felt that it was appropriate to redact on the basis of both of those. We redacted sections rather than individual words, given the 200-plus pages of the document at the time. We were not trying to hide from anybody.

Nick Smith: Can you speak up?

John Clarke: I am sorry; I do have a slight voice problem. We were not trying to keep secret the fact that there were concerns expressed by KPMG about a number of aspects of NMP’s performance. Indeed, in the unredacted version, there are several comments that make that point, but there were some specific elements about their performance that were in the context of some broader issues, and particularly looking at our options going forward, which we felt it was inappropriate to reveal publicly at this time.

Q180 Chair: I think I would probably quarrel with you there, and we will go into the details of the criticisms in the KPMG report. We had a five-year contract, and you have now extended it for a further five years. You have upped the value in year one to
£1.8 billion—another £200 million has gone in there—am I right?

John Clarke: That is the estimated expenditure in the first year.

Chair: So it is an increased value to Mr Zarges and his colleagues, and yet we have before us—I accept that it is only one of the items of evidence that you would have in coming to your decision—a report that is hugely critical. Mr Zarges, of how you and Mr Price have operated the site. If you are talking about this massive amount of public money, I am left bewildered as to why the contract has been extended to you. I think we need to know about the leadership provided by Mr Zarges and his colleagues in order to have confidence that this massive amount is being well spent, and that taxpayers’ interests—the interests of my constituents and those of Mr Bacon—are being properly looked after.

Q181 Stephen Barclay: Mr Clarke, you said a moment ago that you redacted sections.

John Clarke: Largely speaking, we have redacted—

Stephen Barclay: Including when you were protecting named individuals.

John Clarke: Yes.

Q182 Stephen Barclay: Why would you not just redact the names? That is what would normally happen on papers that are submitted to the Committee.

John Clarke: The decision that we took was that people gave KPMG information on the basis that, in giving that information, it would be a confidential matter for KPMG and thence to us.

Q183 Stephen Barclay: With respect, that is not the answer that you gave a moment ago, is it? You said that you redacted on two grounds: commercial confidentiality and protecting named individuals.

John Clarke: What I meant was protecting the fact that they gave us information on the basis that it would not be made public. They were giving us information confidentially in order to help inform our decisions going forward. The deal, if you like, between the people who were spoken to and ourselves was that this would not be made public. That was the reason why we redacted.

Q184 Stephen Barclay: To be clear, what you are saying is that it was not just on two grounds that you redacted; there was also a third ground based on the premise on which information was provided.

John Clarke: That is what I meant by the confidentiality of the individuals.

Q185 Stephen Barclay: Yes, but that is different from commercial confidentiality, isn’t it?

John Clarke: Yes, it is. The commercial confidentiality is a separate issue from that of honouring our commitment given to individuals about not revealing the comments they made.

Q186 Stephen Barclay: Right. So there were three limbs on which you redacted, not two. Is that what you are saying?

John Clarke: No, I think I am trying to say that there were two.

Q187 Stephen Barclay: I have no idea. At the moment, you are saying that you redacted on commercial confidentiality, you redacted on named individuals and you redacted on the basis that you said to people that they were providing information on a confidential basis.

John Clarke: What I meant when I said “named individuals” was the second part of that: honouring the commitment that we had given to them that the comments they had made to us would be treated confidentially.

Q188 Stephen Barclay: So it was not just the named individuals subject to the criticism: it was the ability to identify where the information may have come from.

John Clarke: Indeed.

Q189 Stephen Barclay: So that it is a third reason why. In all those cases, you are saying that the redaction of the section was because the information in all of those instances could only have come from an identifiable source.

John Clarke: I’m not sure I would go as far as saying that.

Q190 Stephen Barclay: I thought you just had.

John Clarke: I am pretty sure that we blanket-redacted the comments made by individuals on the basis that we had given them a commitment that we would not reveal what they had said.

Q191 Stephen Barclay: Blanket redactions are compliant with data protection legislation, including the public interest test, are they?

John Clarke: We can look at that again, but that was the basis on which we did it.

Q192 Stephen Barclay: I am trying to establish whether you redacted on legal grounds or reputational grounds.

John Clarke: We attempted to redact. Our intention was to redact on legal grounds: the commercial confidentiality ground of section 36 or whatever it is.

Q193 Stephen Barclay: So that was the intention but perhaps the reality was different. Is that what you are saying?

John Clarke: It is possible that we have gone beyond that. That was certainly not the intention.

Q194 Stephen Barclay: It is possible. You may have done, even if you did not intend to.

John Clarke: I beg your pardon.

Q195 Stephen Barclay: You may have done. But you did not intend to. That is what you are saying. That just does not sound like a very rigorous legal process.

John Clarke: We have attempted to follow, in this instance and others, freedom of information. We genuinely attempt to follow a proper legal process, where we redact those things that it is appropriate and
John Clarke: From looking at it, I don’t believe so.

Q202 Mr Bacon: Was the entire sentence redacted on the grounds of protecting named parties?
John Clarke: The names and the view expressed by them. Those are opinions expressed by groups; they are not statements of facts.

Q203 Mr Bacon: No, okay, they are not statements of fact. The fact that a party had expressed a view and who that party is, are separate things. That is right, isn’t it?
John Clarke: I think that is the point about whether there are two reasons for redacting or three. My view is that I have looked at this through the lens of there being two.

Q204 Mr Bacon: So you were trying to redact to protect the names of individuals or of organisations. That was one thing. Commercial confidentiality was another. But here it is quite clear that you are also trying to redact views expressed. That’s right, isn’t it?
John Clarke: I think that is the effect that it has had. That was not the intent behind the redaction.

Q205 Mr Bacon: But it goes back to Mr Barclay’s earlier question. You are saying that this redaction wasn’t done in line with your criteria. Is that right?
John Clarke: We have tried to redact on the basis of taking out those opinions that are down to individuals or groups.

Q206 Ian Swales: Are you trying to say that only one person in the organisation would have the opinion expressed there? Is that what you are really saying? Only one person; and therefore seeing that comment, everyone would know who it was? That is very hard to believe.

John Clarke: Not just on the basis of individuals, it is on the basis of opinions expressed by bodies, because you are talking about individuals from groups. There are comments from regulators. It is not the opinion of the regulator—it is the opinion of those within the regulatory authority that have spoken to us.

Q207 Mr Bacon: But these two names are publicly funded organisations.
John Clarke: They are.

Q208 Mr Bacon: They are not individuals. It doesn’t say John Smith and Freda Smith. They are two organisations which are publicly funded. I am just trying to be clear, because what is redacted isn’t simply the name of an organisation so that you could protect the fact that that organisation gave an opinion. You are also hiding the fact that an opinion was expressed, because you are removing entirely the opinion. Is it your evidence that that was not the intention? Or is it your evidence that that was the intention?

John Clarke: That was not the intention.

Q209 Mr Bacon: It wasn’t the intention to remove the fact that an opinion had been expressed?
John Clarke: The intention was not to remove the fact that there were opinions.

Q210 Mr Bacon: If you delete the words: “Contract reviews in 2009 by”—I’ll call them X and Y—“respectively, highlighted concerns about whether the original contract intent was being met”, it plainly removes an important view, doesn’t it?

John Clarke: I accept that point.

Q211 Mr Bacon: Right, okay. You think that that shouldn’t have happened?

John Clarke: Again, we set out to redact this document with good intent.

Q212 Chair: Can you explain to me then why a reference on page 30 that “NMP leadership appears to have intervened to a very limited extent”—this is one of the key findings on operations and projects—or the next one, “Annual operational throughputs have been consistently below PP11” and it goes on, is commercially confidential? I am not a lawyer. These are two key performance indicators; it again says that “NMP leadership has made little intervention”. Why is that commercially confidential? I really don’t understand it.

John Clarke: We have taken the view that having detailed public conversations about aspects of the leadership within Sellafield is not helpful. I grant you can have a different view. We have had very detailed conversations privately. We have spoken extensively about the need for the right quality and quantity of leadership in Sellafield Ltd, but our view was that having that conversation publicly is not helpful to our potential for review.

Q213 Chair: Let me just put a counter-view to you that you should consider. This is a massive contract for billions of pounds over time. It is therefore absolutely imperative in the public interest that we seek to get best value. On the very crude indicators of where the contract cost is going and where the contract delivery dates are going, that seems questionable—even accepting the complexity of the work that has to be undertaken. In that context, I think leadership of the contract is absolutely central to any understanding by us or any other body of whether these billions of pounds of taxpayers’ money are being well spent. I just cannot see that it shouldn’t be in the public interest. If Mr Zarges was a Government Department running this contract—we think of universal credit or something like that—he would be up before us as the accounting officer for his failure to provide the intervention and the leadership.

John Clarke: Can I just make a few comments about the KPMG report? I accept that the elements of redaction may or may not have been entirely appropriate. They were done with good intention in response to a request from an individual. We had debate at the last Committee about why we had not made this public or made it available to you. We genuinely believed that the conversation last time was about efficiencies, which was the subject of the NAO Report. We have subsequently confirmed—I was unfortunately unable to share this at the previous Committee meeting—that the existence of the report was known by the NAO, it had been the subject of comments in The Independent newspaper and we made a comment about it on our website. We genuinely did not believe that this topic would figure large in this meeting. We spoke to the secretary of the Committee and the NAO beforehand about the documentation required. We did not see it as being central or germane to the hearing. On that basis, we redacted it in a genuine attempt to reply to a member of public who asked a question. I am very happy to look at it again to see whether we have been over-zealous in our redactions. It was not an attempt to keep information inappropriately from this Committee or anybody else.

Q214 Chair: I am sorry you feel that was the purpose of the previous Committee. I thought I had made it clear prior to the hearing that given that the contract had been re-let, and given that this is a recall hearing, part of whose purpose is to look at the work the NAO had done on efficiency savings, this Committee would inevitably have an interest in the re-letting of the contract. I am sorry if you did not know that, but that seems absolutely central to a recall hearing.

John Clarke: We did expect to have a conversation about the contract extension, but we had asked previously what specific information was required. The KPMG report is one of a series of documents that we have used. It is not the only document on which we based our discussion.

Q215 Mr Bacon: I can see how you might have come to the conclusion that you just expressed. The NAO did a Report on managing risks and a separate Report on assurance about cost savings, called “Assurance of reported savings at Sellafield”, and it sounds more narrow. So I can see how you could have come to that conclusion. Let me ask you a different, related question. I am not asking you to be any more of an expert on the Olympics than I am, but we looked at the Olympics quite a lot in this Committee and they were widely thought to be a success. There were some criticisms, but broadly they went well. There was good, tight contract management and project management, and there was a relationship between the two. Consequently, they were well delivered and a success. Do you think that there is a relationship between the high-quality leadership in the Olympic Delivery Authority and the fact that there was very good contract management? Do you think they were intimately connected with one another?

John Clarke: I would be surprised if they were not.

Q216 Mr Bacon: So would I. In the same breath, surely it would be surprising if there were not an intimate relationship between the good, tight contract management, which brought efficiency and cost savings that could be relied upon to be genuine because the assurance around them was robust, and the high-quality leadership, management and intervention by NMP—Nuclear Management Partners.

John Clarke: Yes, I accept that.
Q217 Mr Bacon: So essentially they are related, aren’t they? It is not a narrow silo of cost efficiency on the one hand and good leadership on the other. The two are intimately related.

John Clarke: I accept that entirely. The quality of leadership is fundamental to the performance of any organisation.

Q218 Mr Bacon: That is right. I also understand why you might think that having private conversations helps. We all do it in all parts of our lives. Sometimes things are best done privately and sometimes they are best done publicly. But it is also true, particularly with big projects that use public money, that good projects can defend themselves. By defending the rationale for themselves publicly they strengthen their muscles and become better at defending themselves because they have to. That is what happened with the Olympics. Bad projects are like anaerobic bacteria: they can only survive in the dark with no oxygen, no light and with nobody looking at them. Do you agree with that?

John Clarke: I do, but I hope that your inference is not that we have been trying to hide bad projects. We have been extremely open with them. We were complimented by the NAO for our openness, transparency and co-operation in the review it did in 2012.

Mr Bacon: You have been hiding concerns that there was bad leadership.

Chair: Quite. It is the bad leadership you have been hiding.

Mr Bacon: That is what it looks like here.

Q219 Chair: Let me give you an example, and Mr Zarges might like to answer it. If we look at page 62 of the KPMG report—to be honest, I don’t know whether this is redacted or not, because I cannot look through the two concurrently.

John Clarke: I should confirm that neither Mr Zarges nor Mr Price has seen the unredacted report.

Q220 Chair: OK but they will know about what we are talking about here is that major projects’ estimated total lifetime costs have increased from PP11, which is quite recent—if one went back to PP-whenever, the costs would have absolutely gone through the roof, but this is PP11, two years ago—by £1.2 billion, a 37% cost variance. This includes, and you will have to help me with the acronyms, SDP—

John Clarke: Silos direct encapsulation plant.

Chair: Thank you. The forecast lifetime cost has gone up from £668 million in 2011 to £665 million in May 2013.

John Clarke: Up by £665 million to £1.32 billion.

Chair: An increase of £665 million. Sorry, you are absolutely right. MSS retrievals—

John Clarke: Magnox swarf storage silo.

Chair: Thank you. Cost increased from £421 million to £729 million. That is a £308 million increase.

PFCs retrievals?

John Clarke: Pile fuel cladding silo.

Chair: Lifetime cost increased from £342 million in 2011 to £559 million, that is £217 million. So in two years, those three projects have increased massively. What the report says is that you, the NMP, only intervened with specific project reachback staff when you were prompted to do so by NDA staff. You are in charge of this stuff. It then says, if you look at the silos, LP and S, remind me—

John Clarke: Legacy ponds and silos.

Q221 Chair: We will come back to this, I should think, time and time again in these hearings. Again it says NMP actions have largely been in response to NDA. So we are paying you these megabucks—I think Mr Bebb worked out that you got £230 million in the last three or four years as fees—and you do nothing. You wait for the NDA to chivvy you into taking action. In the meantime, the costs, not met by you because there is no cost incentive in this contract to you at all, are passed on to us, UK taxpayers, and escalate through the roof. Do you want to comment?

Tom Zarges: Yes. May I respond? I’d be glad to. There is probably a lack of knowledge about our intervention on behalf of the reporters and I’d like to clear that up and first give some perspective, then perhaps in specific instances where we have—

Chair: I am really sorry, but you are going to have to speak up because the acoustics are pretty poor.

Tom Zarges: I’m sorry about that. I’d like to provide a bit of perspective first, then maybe some specific knowledge about what we have done, so that it can illuminate that subject a bit. First, as I think you know, the structures of the PBO and the site licence company are interesting—they are mandated. The site licence company is the entity that is responsible for all the performance on site and accountable for it. The PBO is responsible for making sure that it is supported, challenged and there is oversight of its activities—and we do so. The intervention that we provide is to lay in specific experts and specific staff to address issues and problems and we have done so in the instances that you have cited. For example, if we talked about just one of those instances, about Evaporator D—

Q222 Chair: Apologies for interrupting, but are you asserting that you don’t have responsibility for oversight of these projects?

Tom Zarges: We do have responsibility for all the activities of Sellafield and we do intervene by providing it.

Q223 Chair: What are you trying to pass on to the NDA? Where does the responsibility lie between you and them?

Tom Zarges: We are collegial. We both have intervention and actions to oversee activities on site and we discuss what we see with one another fairly transparently.

Q224 Chair: My view is that you won the contract. Don’t tell me that your commitments on the contract were only to come in on these things when you were chivvied into doing so by the NDA.

Tom Zarges: No, of course they’re not and that was not at all what I was implying. I was only implying that we share information and we collaborate when we see an issue or a problem to make sure we are aligned in the forensics, in the root causes and how we should solve it. We often do that.
Q225 Chair: With respect, Mr Zarges, you came in—I will repeat again—and you intervened...when prompted by NDA. The report says: “NMP actions have largely been in response to NDA interventions.” That is after the lifetime costs of just the three projects had undergone a 37% cost variance—I bet that there was a time variance as well—of £1.3 billion. That does not sound to me—
Tom Zarges: No, I don’t think the prompting is entirely accurate. We were obviously engaged and involved in providing active support and active personnel to address these issues from the parent companies, including best practices.

Q226 Stephen Barclay: To be clear, are you disputing the report’s findings? It is clear in multiple places that NMP are being asked for, as just quoted, “NMP actions have largely been in response to NDA interventions.” Are you saying that you disagree with that finding?
Tom Zarges: They are in part in response to the NDA—of course, we listen to them as our client, but we also take proactive action when we believe it is required.

Q227 Stephen Barclay: But the report says that the intervention of your key personnel has not been as effective as expected. Are you disputing that finding?
Tom Zarges: That is an opinion. I think that we are making very rational progress in every one of the areas where we have indicated that there are problems, shortfalls and issues.

Q228 Chair: What is going well? The only thing I have noticed, having read this report and the various others, is that I think safety standards are better. I acknowledged that at the start. I cannot see anything else where costs are getting under control or where you are getting underneath what to do. You have been on the site for five years and all I can find in this report is criticisms of your performance. I am giving you an opportunity to explain to the Committee one project where you think you have added value to justify the money you get out of it. We will come back to what you have done on expertise and money.
Tom Zarges: There are more than 400 projects on Sellafield. We are looking at a very narrow slice and the most vulnerable slice. Obviously it is 14—

Q229 Chair: It is not new. I am sorry to interrupt you, but I have given you a chance to be general. You have been on the site for five years and all I can find in this report is criticisms of your performance. I am giving you an opportunity to explain to the Committee one project where you think you have added value to justify the money you get out of it. We will come back to what you have done on expertise and money.
Tom Zarges: There are more than 400 projects on Sellafield. We are looking at a very narrow slice and the most vulnerable slice. Obviously it is 14—

Q230 Chair: We are looking at the most expensive, which are the major projects.
John Clarke: Perhaps I could pick up—
Q231 Chair: No, let him. He’s in charge of it. For heaven’s sake, he gets money for it—he must know what he is doing.
Tom Zarges: Let me explain the 14 projects and their characteristics. Obviously, of them—

Q232 Chair: I don’t want the generalities.
Tom Zarges: I understand. Obviously of those 14 projects, three of them are “in the ground” construction projects. They have had problems. They were the first ones out of the box.

Q233 Chair: Which one have you done well?
Tom Zarges: We are talking about evaporator D, we are talking about—

Q234 Chair: No, I have got criticisms on D—there is a criticism in here on D.
Tom Zarges: The SAV project.

Q235 Chair: Which one has gone well?
Tony Price: Can I just intervene?

Q236 Chair: No!
Tom Zarges: Well, Mr Price is in charge of the site and he is in charge of the activities on site.

Q237 Chair: You’re the big boss.
Tom Zarges: Yes, I am. We have had, for example, an accumulation of about £650 million in programmatic savings on site. I think that that is quite significant. Think about many of the other programmes and projects that we have done: we have stabilised the storage facilities and made them much less vulnerable to exigent circumstances, and we have made them stand up to what I think are some pretty long-term, efficient—

Q238 Chair: What is your one example, Mr Price, that you want to give on behalf of your boss to rescue him?
Tony Price: I was appointed as a managing director of Sellafield in May this year.

Q239 Chair: I know; that is one of our criticisms. You are the fourth or fifth one, aren’t you?
Tony Price: I am the fourth one.
Q240 Chair: In five years—real leadership commitment.
Tony Price: I think two left because of ill health, unfortunately.

Q241 Chair: No. Three were ill before you, were they, Mr Price?
Tony Price: Two were ill before me and my predecessor was there for two years.

Q242 Mr Bacon: How are you feeling?
Tony Price: I feel okay just now. Just to be clear, I fully understand my responsibility to the taxpayer and to our client as well. As the MD at Sellafield, I am totally reliant on NMP. You ask for examples of where things have gone wrong, and we do understand—

Q243 Chair: We wanted one example of something that went right.
Tony Price: I’ll give you an example. One of our parent companies, AREVA, we brought in to support us in the vitrification area. We have missed our targets—

Q244 Chair: We are very sceptical here that you should be giving contracts to yourselves, but anyway, leave that aside. That was one of our criticisms last time—that you are using this as a vehicle to give contracts to yourselves.
Tony Price: That was not a contract we gave; this was actually using reachback, so reaching back into the parent companies. We brought a team in from AREVA who worked with us on the vitrification plants, which had not been meeting targets, and we are now meeting targets within vitrification. In fact, we had a world record just two months ago. So that is an indication of where we are bringing in world-class expertise from the parent companies, and I do rely on that. I think the other thing that we cannot forget is that Sellafield is still the hub of the UK’s nuclear industry. We still support Magnox, the AGR fleets, Dounreay and the exotic fuels coming down from Dounreay. So as well as this slice, and I agree these are the important projects, the 14 that are highlighted here—in fact it is 12 because there are two which are no longer required—we are the hub of the nuclear industry and we will be for the next six years. It is very much a balance. We use an infrastructure which is 60 years old; it is a failing infrastructure. We have had to systematically go through the infrastructure to make sure it is properly maintained and that we have got the right asset arrangements in place. That infrastructure supports these projects as well.
It is not an excuse; I think it is just a fact of life, and they are the sorts of challenges. As I think you quite rightly pointed out at the start, Madam Chair, safety and security is at the front of everything we do here, because if we do not get that right, it will put this programme back.

Q245 Chair: Yes, it is the one thing I admit that you have done well. Somewhere in here I have a criticism of the vitrification project, but let’s leave that aside. Can I come back to you, Mr Zarges. Why four chief executives in five years? What on earth where you playing around there with?
Tom Zarges: As Mr Price said, the first one really did not take office very long. He had a health problem and had to retire.

Q246 Chair: Why did you appoint him?
Tom Zarges: Well, he did not have a health problem when he was appointed. He was two years in standing during competition and during the formation of the programme, and once the programme was enacted, he had a health difficulty that required his unfortunate removal.
The second manager that we put in had a similar health problem. He had a minor stroke, in fact, while he was on the job. Fortunately, we have a reservoir of very key people who are prepared to come in and work this programme.
The third manager had been there for five years and he has been there for exactly seven years right now. He was a fixture on the site, chief operating officer, assumed the position just two years ago and was Mr Price’s predecessor. So we do have a very good cadre, I believe, of key people who are capable of managing this programme.

Q247 Chair: Mr Zarges, if you or your business had to change the chief executive of a massive project like this four times—I accept one accident might happen—in five years, do you think that is good?
Tom Zarges: It was not the plan.

Q248 Chair: A shareholder looking at you would think, “My goodness, you are bad at choosing or you are not committed to the site”. That is what it feels like.
Tom Zarges: It was certainly not the plan and it was not by design. It was forced by these exigencies that I just recounted.

Q249 Chair: Is this the only place you have changed four? It just feels as if you are doing all of this from the States and you are not really committed to what is happening here in the UK. There has got to be some explanation. It is a pattern we see here when projects go wrong, which is why Mr Bacon went on about this. Leadership is poor, and one of the ways in which it is poor is that it has not been consistent.
Tom Zarges: Well, we have replaced some people because we understood that we needed different leadership, or a different kind of leadership, for different circumstances. That, obviously, is part and parcel of our proactive assignment of key leaders on site.

Q250 Guto Bebb: On the issue of leadership and being proactive, however, if you look at the report—have you seen the KPMG report in full?
Tom Zarges: The redacted version.

Q251 Guto Bebb: The concern I have is that we are talking about an individual project, but the comments in the report about the leadership and management of the project are damning. Having been a consultant—
for my sins—before I was elected to this place, I would be extremely careful before putting these types of comments into a report. So, going back to the question the Chair asked previously, are you disputing the findings in terms of the reactive nature of the management structure offered by NMP to Sellafield? Time and again it is said in this report, in black and white, that the response from NMP was reactive and that there was no proactive involvement. It is as damning a report as I have seen. So, are you disputing the findings? That is the key question.

Tom Zarges: I am. I do not think that the action is reactive. I think we have taken proactive leadership. Let me just recount what we have done in the last year. For example, we have completely revised the organisation on site; we have simplified it; we have streamlined it; and we have put key people in to occupy new positions with different accountabilities. We have probably put 30 additional people on site, to take on the next phase of the Sellafield mission. In doing so, we have put the organisation into a much more operational focus for the next phase of activities—that is, project development, hazards and retrieval removal, the LP&S decommissioning activities and project delivery. We have accountable people who are experts in their field, responsible for each of those positions, under Mr Price. And in fact, we have revised the whole theory and the operation of governance of NMP with the SLC, to give it a larger presence in Cumbria. We have a standing office there of 15 people, engaged in oversight, support and delivery.

Q252 Guto Bebb: So, in effect, you are disputing the KPMG findings?

Tom Zarges: Yes.

Q253 Guto Bebb: Would you care to comment, Mr Clarke? Do you dispute the findings in the same manner, because, if nothing else, if there is such a huge discrepancy between the findings of a fairly well-known firm in the UK and the comments being made by Mr Zarges, did you waste £250,000 getting this report? Because the decision to give the contract to a second five-year term.

John Clarke: No, the report was produced as part of a suite of work to help inform our decision. It was not a recommendation; we never sought a recommendation from KPMG and we didn’t make one—

Q254 Guto Bebb: On that point, if it was part of a “suite” of information, what other information did you have, because it would have to have been pretty strong to allow you to decide that this was not strong enough to persuade people to renew the contract?

John Clarke: This is looking at one particular aspect, which is performance on the site—

Guto Bebb: I appreciate that.

John Clarke: In response to your earlier point about whether I agree or disagree with the comment, I think I would agree largely with that comment. These are judgment terms. “Largely”—what does that mean? These are subjective comments rather than definitive comments. But I would have to say, and perhaps we may disagree—

Q255 Guto Bebb: In terms of subjective comments, when there is a finding that says that there is little evidence that NMP provides proactive leadership, that is pretty—

John Clarke: I would acknowledge that the degree of proactivity has been less than we would wish to see and that in some instances, the quality of leadership has been less that we would wish to see, and we have had that discussion; I think we raised that at the hearing a month ago. I don’t think it’s surprising that there may be a slightly different view from Mr Zarges than there is from me. I expect to see reform, and I have said this, to bring capability. This is all about the capability that you assert you’ve been disappointed with elements of performance. So it is not the case that we are entirely satisfied with performance; we’re not, and we have been very clear about our requirements going forward. But this is looking at performance of the site. We were looking at performance on the site, performance of the contract itself, in terms of improving the site—a lot of what happens on the site is down to the inherent nature of the site, and the site licence company—and then separately we look at alternatives. And as I said at the last meeting, in order to move from what we have to an alternative, we have to be confident that the alternative will provide a better outcome. Our judgment at this time is that the thing that provides the best outcome is continuing with this contract into a second five-year term.

Q256 Chair: I hope that, at the end of this hearing, we might help you to think again. Mr Zarges, you have talked a lot about the capability that NMP brings. Again, I have to refer you to the criticism in the report of your ability to bring capability. On page 120, headed, “Key findings—general approach”, the report looks at how you supported the capability improvement and culture change. This is the area where you said, “This is our strength; we brought these brilliant people in from elsewhere”. What the report actually says is, “NMP and SL Executive secondees have been inconsistent in the development and application of ICP changes”—I think “ICP” must be culture change. Then it states, “NDA detailed understanding and monitoring of this area has been variable”. This is all about the capability that you assert you’ve been bringing to the project. On the next page, at paragraph 5.2.2, the report talks about a finding on project management, stating that SL—you, Mr Price, or probably one of your three predecessors—appear largely reactive to NDA challenge…NMP intervention appears to have had limited impact, with skills regarding estimation not consistently evidenced in improved business case quality”.

The next page, also on general findings, looks at project management of on-site design and engineering issues. The report states that “SL is largely reactive to NDA challenge…Escalation to SL executive secondees and NMP whilst deemed effective when applied, may not occur soon enough, as is largely a
response to NDA intervention’. At paragraph 5.2.5, on trying to get integration of the projects, the report states that “NMP led initiatives and pilot projects designed to exemplify innovation have not historically been successful”. Just to complete the point about what great talent you have brought on to the estate, the report then looks at the supply chain. It states on page 123 that “SL often appears to lack the commercial skill set to identify the appropriate procurement strategy…SL is largely reactive to NDA…NMP appears to intervene little and limited reachback has specifically been used to support the development of procurement strategy”. On supply chain management, the report states that “SL appear not to have the capability or capacity to effectively manage subcontractor relationships. NMP appears to lack the commercial skill set to identify the supply chain. It states on page 123 that “SL often have brought on to the estate, the report then looks at the appropriate procurement strategy…SL is largely reactive to NDA…NMP appears to intervene to a limited extent.”

All this great discourse you have given us about the skills you have brought in to support better running of the estate is contradicted by the evidence given in the KPMG report, is it not?

Tom Zarges: I would say that every one of those areas are areas that are ripe for work; there is no question about that. We have not succeeded in every one of those areas. It is not because of lack of intervention, interest or talent. We are driving into every one of those areas. We have put new staff and new strategies in place. We have enacted focus areas, with subject matter experts, to address every one of the areas you have just mentioned. There is a work in progress—there is no doubt about that—and it is not concluded.

Chair: It has been five years.

Q257 Meg Hillier: Some of the highest qualified and most experienced people in the world, as a group, are dealing with these things. As you highlighted, this is the biggest nuclear site—it includes 3 of the top 10 international engineering challenges, if I may use layman’s terms—yet you are reacting only now to some of these things. Why were you not doing it better from the beginning?

Tom Zarges: There is a bit of discovery: one must remember that when we hit the site, it was the first time we had been on site. We had no evidence of either shortcomings—

Chair: This is 2008, Mr Zarges. You have been there five years.

Q258 Meg Hillier: It was not a secret. Although there are a lot of problems and a lack of documentation about specifics, it was known to be a difficult site. Most of us have visited it, and it is very instructive to politicians and others.

Tom Zarges: The nature of performance could only be ascertained when you exercised the site through a full range of its functions and capabilities. There was no preview of what the problems were or how deep they were, or an analysis of how to fix them.

Q259 Meg Hillier: I appreciate that that is the nature of the site and many of the problems; it was the known unknowns, if you like, that you were taking on. But you were brought in as a consortium because of your expertise. All the criticisms are of your ability to react to what you found; they are about your being reactive rather than proactive, perhaps being a bit slow.

There are obviously challenges—I appreciate that people get sick; that happens—but what went wrong with reacting quickly to ensure that the right things were in place? What when wrong is billions and billions of British taxpayers’ money.

Tom Zarges: We realise the obligation to spend taxpayers’ money wisely and to anticipate problems whenever we possibly can. When we discover them, either through anticipation or through exercise, we address them quickly and proactively. We did not discover a lot of these problems in the first couple of years, that is true. Perhaps we were late in discovering that these problems were under-reported by the existing staff or not ascertained completely or not completely understood.

Q260 Meg Hillier: When you say ‘problems’, do you mean problems on specific nuclear sites within the site or problems of management?

Tom Zarges: They were primarily in projects, and that is what we are talking about, I believe. It took a while for some of these projects to get completely up to a speed where they could be evaluated. For example, Evaporator D started some time ago, in 2006. It was in progress and it was reported as “well” when we came on site, but we soon discovered that all was not well. Some of the reports that we got were inaccurate and some of the information was inconsistent with what we were seeing in the conduct of that work. We immediately decided that we needed to review project delivery, and we did.

Q261 Chair: When was this?

Tom Zarges: It was probably 2009, or early 2010.

Q262 Chair: What have you achieved by 2013?

Tom Zarges: We immediately established a project delivery directorate. We decided that it was a more generic problem.

Q263 Chair: This report, or the research, was done in 2013, so you have had three years at it. The criticisms come out of your performance in 2013.

Tom Zarges: We are saying that we proactively established a project delivery directorate to deal with all this, and it takes a bit of time to get some traction. That is unfortunate and disappointing to us all. The fact is that we put about 30 people on site, and they are project delivery experts in world class programmes like this. The site itself had not delivered a project in 25 years. It was a skill on site that had atrophied quite a bit and was not in constant use. It took some discovery to ascertain that it was not ready to take on projects such as this. We had to intervene and provide quick and reactive expert help.

Q264 Meg Hillier: To put it in simple human terms, the reason why the contract was let in the first place was that there was a recognition that things needed to be sorted. That was what the NDA was set up to do. There were people on site who were being away, but perhaps without the focus on project delivery or...
on tackling some of these problems. That was why the whole thing was set up. You were brought in as experts to manage those projects and you are saying that you were surprised that there was a gap. That seems to me to be a contradiction. You were brought in because the British Government acknowledged that there was a gap and set up the NDA to commission you. Why did it take so long to discover that there was a problem?**

**Tom Zarges:** The immediate priority on site was safe stewardship and operations. It was recognised that many of the storage facilities were in a bad shape and the site infrastructure suffered from different maintenance issues.

Q265 **Chair:** Was safety your only priority? Is that what you said to them to do?

**Tom Zarges:** It was a predominant priority. Safe site stewardship was a priority.

Q266 **Chair:** I am asking Mr Clarke, because there are all sorts of bid commitments that disappeared.

**John Clarke:** It was not our only priority. We were looking for improvements in safety, operational performance and project performance and for overall improvements in capability on the site.

**Chair:** Safety was only one of your things.

Q267 **Meg Hillier:** The capability is what I am interested in, because that is particularly what you were set up for—to bring in the capability. That was acknowledged. We can talk about what happened in the past, which is failures by successive Governments to deal with it. It was put in a box labelled, “Too difficult to deal with”. Then it was tackled. Nothing is perfect, but you were brought in as the experts and it took you a while to get up to speed on where the gap in capability was.

I would have thought that a fairly obvious thing would be to see the skill sets on site and see where the gaps are before doing the reachback. Are you saying that you did not do that?

**Tom Zarges:** It was not quite that obvious, and it did not become obvious until we were able to detect trends in the first project being implemented, which was Evaporator D. We saw quite quickly that this was not just a project-specific issue; it appeared to be more like a generic issue. That was when we established a project delivery directorate with about 30 people. That number includes estimators, project control personnel, project managers, people who can prepare sanctions and people who specialise in predictive performance. They hit the site and have now become one of the principal operational elements in our organisation. There are three operational elements, just to be clear.

The first is project delivery, which is a specific focus with extraordinary reachback capability and personnel assigned directly to the site from the parents. They are training up the existing site staff in how to apply best practices, proper estimates and proper project management controls. It will take some time for that training to become completely effective, but it is gaining traction. Those projects on which we have applied these practices and measures are straightening out and performing in a much more predictable environment.

Q268 **Meg Hillier:** I don’t want to go into this in much more detail, but while we recognise that there was a lack of project capability, there have been generations of nuclear workers in west Cumbria who have a great deal of expertise. When I have visited and met the workers, on site and off site, I have been struck by the camaraderie and the real pride in being a nuclear worker and doing it safely and well. There was no lack of desire to learn how to do things better on difficult sites; I did not sense any recalcitrance from any of these people. They were an amazing group of workers and I was very impressed by them. You have to bring them up to speed. You say it takes a long time, but people were very willing, in my experience.

**Tom Zarges:** They are very willing. I think the talent is there and these exercises don’t become accomplished in an academic or a pure training environment; they are honed through application. It is only by doing that the proper learning and instruction take root and get traction. That is precisely what we are doing.

This cadre of about 30 people who we sent over as a project delivery directorate is teaching and informing several hundred people in how to exercise proper project management techniques and procedures. There are about 400 projects on site today, so it is no small matter. It is a large matter, and training and expanding the cadre of people who can do it well and on whom we will rely to do it well takes a bit of time.

Q269 **Chair:** I will come back to you, Meg Hillier—I promise you. I just want to bring Amyas in. How often have you visited the site in the past five years, Mr Zarges?

**Tom Zarges:** I have visited perhaps 20 times a year.

Q270 **Chair:** When was your last visit?

**Tom Zarges:** Two or three weeks ago.

**Amyas Morse:** I have a couple of questions. You will understand why the Committee is questioning you closely on this point. You say that it took some time to realise the extent of the challenges. Were you being misled about the state of affairs on site or do you feel that this was presented to you accurately? Did it take you time to figure out what was really going on because people were making it out to be better than it actually was?

**Tom Zarges:** No, there was not much previous knowledge prior to coming on site. When we took on the contract in April 2008, because of the vetting requirements it took us fully until the fall of 2008 to have a full team able to begin to take charge of the job and understand the dimensions of the task. We really began to understand it once we set foot on the job. It is almost impossible, I think, to adequately describe or discern the issues or the challenges on site until you get there, review the asset conditions and see how the staff respond to various circumstances. A paperwork review probably looks better than the real review, because on paper—procedures, processes and through interviews—people have an intellectual
understanding of what it takes to put together a job like this and how it should work. But when you get down on the ground and see how it is exercised, it sometimes is not as good as the paperwork or the forensic investigations would lead you to believe.

Amyas Morse: One other question, if I might. As we listen to you answering these probing questions, you are indicating that things are on a much better basis going forward. Would it be fair for the Committee to call you back in a year or couple of years’ time and expect you to produce something slightly less confusing than what we are looking at now, in terms of measurable progress? Would that be a fair position for the Committee to adopt?

Tom Zarges: Absolutely. If we haven’t learnt from these experiences, we certainly aren’t doing our job.

Amyas Morse: So, in a couple of years’ time it would be fair to expect you to demonstrate measurable progress on all these major projects?

Tom Zarges: Yes sir.

Q271 Ian Swales: Mr Bacon referred earlier to the Olympics. This amount of money is eight times the Olympic expenditure. On the Olympics, it was recognised that clear leadership was needed. When the chief executive of the delivery authority sat at that table, we knew whom we were talking to and he took full responsibility for what was happening. I am concerned that with some of the evidence today I do not get that strong sense from the three of you that we know who ultimately sits with the parcel; the parcel seems to be being passed around. I would like you to comment on that first. I want clarity on who really has got their feet to the fire.

Tony Price: That’s me. I am the managing director of the site. I am the site licensee. I fully understand my responsibility and accountability to the UK taxpayer. I have been on site for six months and I am very clear about what we have to do. Just following on from Mr Zarges, I think there have been disappointments over the past five years—we fully understand that—but I think there have been some successes as well. What I have to do is build on those and, importantly, learn from the mistakes we have made over the past five years. I have focused on five key areas at the site. One is that we have to rebuild confidence and trust. I fully understand that and take accountability for that. We have a good work force at Sellafield; I think we can be far better. We can be more productive.

Q272 Ian Swales: If I could pause you there. Can I be specific? I know it will not physically be like this. Are you the person who is going to sign £70 billion-worth of cheques over the life of this project? I know it will not necessarily be you personally. Is it you?

Tony Price: I run the site.

Q273 Ian Swales: No, no. I am talking about the whole project. Who is it? Who runs the whole project?

Tony Price: As far as the money goes, we go through a sanctioning, a governance process. The NDA are engaged as well. That is something where we are aligned with the NDA.

Q274 Ian Swales: Who decides? Is it you, Mr Clarke?

John Clarke: The NDA specifies the outcomes that we are seeking to achieve.

Q275 Ian Swales: That is different.

John Clarke: The licensed company is accountable for determining the way in which those outcomes are achieved, putting together a plan that says how long it will take and how much it will cost. We review and critique those plans.

Q276 Chair: Answer the simple question: who signs the cheques?

John Clarke: Ultimately, the Treasury signs the cheques, because it is public money. But the approval—

Q277 Mr Bacon: You have actually created a complex purchase.

John Clarke: The approvals—

Q278 Ian Swales: Who signs the cheque requisition on which the Treasury then sends the money? Who is ultimately responsible?

John Clarke: I am.

Q279 Chair: Do you take responsibility?

John Clarke: I am the accounting officer for the NDA and I take those things through my board, and from my board through to the Department and Treasury.

Q280 Ian Swales: So, you are the accounting officer and you have effectively bought in all this resource to deliver your responsibility.

John Clarke: Correct.

Q281 Ian Swales: That is helpful. That ought to inform a lot of our questioning, because we just talking to contractors on the other side of the table.

John Clarke: The site is mine. The NDA owns the site.

Q282 Ian Swales: I think I touched on this when we visited the site a while ago. I worry about this whole project. Nobody is ever going to go around and say, “We have just found the cheapest possible nuclear decommissioning partners in the world and, by the way, they are going to do it at the fastest possible speed.” Nobody is ever going to have that conversation, because the pressure is all going to be in the other direction about taking as long as possible and spending vast amounts of money. I worry about the back pressure. What really is the back pressure on this £70 billion? Or is it just going to keep growing like Topsy and the time scales going out for ever? How do we as the taxpayers get assurance that there is pressure on both those things: time and cost?

John Clarke: I have accountability for ensuring that taxpayers’ money is spent wisely and delivers value for money. That is a fundamental requirement of an accounting officer. I am also required to ensure that the site is run in a safe and environmentally appropriate manner. It is a slightly complex set-up for
nuclear operations, as opposed to other operations, in that the site-licensed company has specific separate legal accountabilities under the Nuclear Installations Act 1965, as amended. You are required to be a licensed company. Mr Price is the holder of the licence, and he has specific accountabilities. However, in answer to your question about pressures in the system, the pressures in one direction for potentially going slower are those of caution and considerations of safety. I think there are considerable pressures looking to go faster and at lower cost. It is in my interest, on behalf of the taxpayer, to do this as soon as we can and at the lowest cost we can, but not at the expense of cutting corners. The contracts incentivise the work by Sellafield Ltd, under the ownership of Nuclear Management Partners, to be done as quickly as possible and at the lowest cost.

There is tension in the system. We have seen that, in the system where performance has not been as we would wish it, the fee has reduced. The figure was typically around £50 million a couple of years ago. We still haven’t bottomed financial year 2012–13, which was commented on at the previous Committee, but it is likely to be nearer £30 million or possibly below.

Q283 Ian Swales: My final point is around the sheer amount of money. I find it quite hard to envisage how you could spend that amount of money at one site. It is hard to imagine what the money is going towards. Before you answer, I had an example this week of a company in the south of England quoting for a heat exchanger for a new power station. It thought there was Government money behind it, doubled the price, and when it found out that the Government money was only helping in research, it had to halve the price because it was actually a commercial company buying the heat exchanger. That is a true story from this week. I worry that this is a bit like getting your car repaired because it was actually a commercial company buying the heat exchanger. That is a true story from this week. I worry that this is a bit like getting your car repaired.

John Clarke: We do, we have complete open book access. [Interruption.]

Chair: Mr Clarke, there is a vote. I am really sorry. Save it and we will have your answer when we come back in 15 minutes.

Sitting suspended for a Division in the House.

On resuming—

Chair: Right. Please carry on, Mr Clarke.

John Clarke: I think the question was around the costs at Sellafield and the value-for-money aspect. It is undoubtedly the case that there is a premium to be paid for working on a nuclear site generally and for working at Sellafield in particular. That is partly due to the complexity of the site and the fact that it is quite difficult to get to the work face in Sellafield. There are a lot of security checks and other procedures to go through before you can get to the work face, so the working time is a smaller proportion of the working day than it would be elsewhere. There is a premium that comes with that.

We take into account those sorts of factors when we benchmark costs and schedules against other projects. As I pointed out at the last Committee, a direct benchmark of a facility such as MSSS is difficult because there isn’t another one anywhere else and there will only ever be one of them. We have benchmarked aspects of those as best we can. If you look elsewhere in the estate, there is a more competitive market on occasions and we see larger numbers of people bidding. As a consequence of larger numbers of people bidding you tend to get lower costs; when you get fewer people bidding you tend to get higher costs. That is the nature of supply and demand. But we track those costs. We compare them with experience elsewhere in the UK estate. In the United States DOE programme, we have done some comparisons with some French programmes but there are fewer of them. We have also compared them with non-nuclear programmes where appropriate.

Q284 Stephen Barclay: Mr Zarges, will you achieve the minimum performance standard for 2012–13?

Tom Zarges: We will be just short. It will be about 90% of the revised minimum performance target.

Q285 Stephen Barclay: But you won’t achieve it.

Tom Zarges: It will be about £650 million of savings.

Q286 Stephen Barclay: The minimum performance standard was to achieve 80% of savings. Was that one of the things you would have expected to have been required for rollover?

Tom Zarges: We very badly wanted to meet that. Absolutely.

Q287 Stephen Barclay: So that bit of the report is correct?

Tom Zarges: Yes.

Q288 Stephen Barclay: Do you accept the report’s finding that project management needs substantive improvements? Is that correct?

Tom Zarges: Yes. Indeed. I don’t think the journey is over until we demonstrate that improvement on the ground and with our projects. I think, and know, that the projects we have revised with this new team are hitting the marks so much better than they did originally, before that team showed up. They are training the people involved in those programmes and they are tracking to the revised schedules and budgets, and have for the last year to year and a half.

Q289 Stephen Barclay: Is the report correct when it says cost predictions require improving?

Tom Zarges: That is a very good point. Of the 14 projects that were cited, the majority of them are projects that are still in development—that is, still being estimated. There is a process that one goes through to put these estimates together and to get them in firm form for construction authorisation. Sellafield is a particularly difficult environment to do that because much of the inventory is uncharacterised.
Much of the technologies are unproven. The safety cases need to be evolved and the paths for retrievals need to be reconciled. So there is a fairly long journey that one must go through to perfect these estimates. The question always is, do you put a large contingency in place on the first day for all of these unknowables to try to get a stronger gauge on what an ultimate development and maturity of process and technology would look like, or do you add incrementally as you go through with a scoping process? As scope evolves and gets confirmed, do you then put the increments on top of the original administrable estimate? It is a bit of a running commentary that we have.

Q290 Stephen Barclay: But you accept it is fair finding?
Tom Zarges: Yes.

Q291 Stephen Barclay: Do you accept that reporting equity is still an issue?
Tom Zarges: It is much less of an issue than it was. We fundamentally often had reports that were submitted to different people on different periodic cycles and so they were not in synchronisation. I believe that we have corrected that and the reports now are harmonised, they are correct and they are on a singular cycle.

Q292 Stephen Barclay: So is it no longer an issue, because you have changed the way you issued it?
Tom Zarges: It is no longer the issue that it was called out for, no.

Q293 Stephen Barclay: When did it cease to be an issue, in your view?
Tom Zarges: I would say about a year and a half to a year ago. Maybe a year ago.

Q294 Stephen Barclay: So it ceased to be an issue before the report had a finding that it was an issue?
Tom Zarges: I would say that we were addressing it and we have been catching up with it over probably the last year.

Q295 Stephen Barclay: Sorry, but that is not the evidence that you just gave. You said it was fixed ahead of the date of the report.
Tom Zarges: Yes, we put the fix in place, but it is not completely implemented. It hasn’t gone to the bottom of the row. Some of these implementations—

Q296 Stephen Barclay: So you put the fix in place, but it hadn’t been implemented? Is that what you are saying?
Tom Zarges: Not completely.
Tony Price: It is a journey, really. What we recognised was that there were issues with project management. There was a gap there, and also with design capability as well. They were two areas that we knew that we needed to put right. In project management we have addressed that by, as Mr Zarges said, putting a team in there dedicated to look at major projects. We recognised that there was an issue with risk and contingency with some of those projects. I have managed some of the largest projects around the world in oil and gas, and in power, and these are different. Not all of them; we have 465 projects running right now at Sellafield and 112 of those are what we call “gated projects”, which are running through the governance process. These 14 here, and there are probably about four of them, are projects, really, that are an orthodox project where you will define a scope, define the design, move into construction, and then into operation and maintenance. Some of the scope and design will define until we have nearly completed the projects. That is just the nature of the business.

Q297 Stephen Barclay: Can I go back, Mr Zarges, to the question? You said reporting had been fixed ahead of the date of the report, but that we were also on a journey.
Tom Zarges: I’ll correct myself. We applied the fix. It is not completely implemented to our satisfaction.

Q298 Stephen Barclay: So is the report correct to say, at the time of the report, reporting remained an issue?
Tom Zarges: Yes. I wouldn’t say it is a blanket statement, but it is correct in some of its specifics.

Q299 Stephen Barclay: Thank you. Is engineering capability still an issue?
Tom Zarges: It is.

Q300 Stephen Barclay: So the report is correct in that?
Tom Zarges: It is.

Q301 Stephen Barclay: So the report is correct in saying that you will not meet your minimum performance standards, it is correct in saying that project management needs improvement, it is correct in saying that cost predictions require improvement, it is correct in saying that reporting accuracy is still an issue and it is correct in saying that engineering capability is still an issue, but you dispute—
Tom Zarges: I am not saying that they are all terribly deficient, but they all require some degree of correction. None of them are precisely where we wish them to be today.

Q302 Stephen Barclay: To be clear, going back to your earlier evidence, you still dispute the key findings of the report.
Tom Zarges: As generic, blanket findings, I certainly do.

Q303 Stephen Barclay: Why did the contract not factor in performance improvements?
Tom Zarges: Why did it not include performance improvements? In fact, what we call enablers or enhancers—specific, functional performance improvements—are embedded in the criteria that we and the NDA have discussed and that we are imposing on the site.

Q304 Stephen Barclay: So the report is incorrect to say that the contracts did not factor in any
performance improvements, in terms of the commercial operations?

Tom Zarges: It is not a contract term per se, but it is a requirement that we recognise and are graded on with—

John Clarke: Could I comment on that?

Q305 Stephen Barclay: No, with respect. I am happy for you to come in later, Mr Clarke, but I am trying to establish something. So it is not a contract term?

Tom Zarges: That is correct.

Q306 Stephen Barclay: So is it not in the contract?

Tom Zarges: It is not a specific contract term. There are some milestones that relate to performance improvement.

Q307 Stephen Barclay: Can it be in the contract if it is not a contract term?

Tom Zarges: Not directly. Indirectly.

Q308 Stephen Barclay: So I come back to the point, when the report says, "The contracts did not factor in any performance improvement", that is correct, is it?

Tom Zarges: The contracts embed performance criteria. To the extent that they improve, we are rewarded under the contract.

Tony Price: May I say something? It is important for the Committee to understand. Moving forward, we have a site strategy in place. On the improvements you have talked about, we have put in place an excellence plan, which identifies the areas of weakness that we have learned from over the last five years. They are areas such as engineering, commercial management, and project and programme management, where we are enhancing our capability and are making improvements.

Q309 Stephen Barclay: Of course. I am not for a minute, Mr Price, suggesting that you are not seeking to make improvements. I am trying to establish what was in the contract and the accuracy of the report. With respect, that is a totally different issue. Mr Zarges, do you think that local government is satisfied with your performance on this contract?

Tom Zarges: I assume not, from what I have read. We have not done a very good job of communicating what we are doing or the benefits that we are bestowing on the local socio-economic community, even though we are obviously working hard at that and are providing some pretty substantial benefits.

Q310 Stephen Barclay: Do you accept that the report is correct in identifying that local government is not satisfied?

Tom Zarges: Yes. The impression of the local socio-economic community is that we are not bestowing the benefits that I believe we are, in fact, bestowing.

Q311 Stephen Barclay: Why do you think that local government thinks that you have consolidated the economic gain of the contract and abused reachback?

Tom Zarges: That is a good question. From our standpoint, reachback is a very specific and very targeted activity. I believe that as we do so they may feel that somebody else could have done the same activity that a reachback person is doing. From our perspective, these reachback people are subject matter experts. They know and are there to install the best practices of the parents. They hit targeted areas that are agreed to by both the site licence company and ourselves, and which need to be refreshed and where new processes and procedures need to be left behind by these reachback personnel.

Q312 Stephen Barclay: But you would accept that there is a commercial benefit to you in continuing to use reachback, rather than developing skills?

Tom Zarges: It is a neutral to us. In fact, it is often quite difficult to get reachback people.

Q313 Stephen Barclay: Why is it neutral?

Tom Zarges: It is earnings neutral. There is no commercial advantage to us whatsoever in putting reachback personnel on site. It is quite difficult to reassign them from their existing clients and jobs and pull them into Sellafield for a period of time.

Q314 Stephen Barclay: So why would you not have developed skills within the supply chain?

Tom Zarges: We are indeed doing that.

Q315 Stephen Barclay: So you dispute that bit of the report?

Tom Zarges: We are developing it in the supply chain, we are developing it on site. The sense of the reachback people is that they are there to develop that and leave it behind so it can be practised by incumbents.

Q316 Chair: There is a particular area. I agree with Stephen Barclay very much that there has been a lot of criticism as to whether or not you are feeding into the supply chain some of this British taxpayers money. If you look at page 136 of the report—this is an issue partly for Mr Clarke and partly for you—the purpose was to foster the capability of the supply chain. It says that you achieved your minimum performance standard there, but it did not address the original underlying intention. Do you want to comment on this, Mr Clarke? It seems to me that you mis-specified or there was some negotiation that did not benefit the local people in the way that was intended.

John Clarke: There are a number of minimum performance standards. This specific one about supply chain requires Sellafield Ltd under the ownership of NMP to put in place an improved supply chain strategy and approach. What is being said in the report, in the opinion of KPMG, is that while it has been put in place, it is questionable as to whether it is sufficient. That is precisely our view as well. It is questionable as to whether it sufficient.

Q317 Chair: With great respect, you put the MPS in there, didn’t you? You put in the minimum performance standard and it didn’t meet the underlying intention.

John Clarke: What I said at the last Committee a month ago was that there was a range of minimum
performance standards that have got a qualitative element to it. This is a qualitative element. Is there a supply chain strategy? Yes. Is it satisfactory? That is a judgment. Our current judgment is that it is unlikely to meet the minimum performance standard. It is NMP’s view that it is likely to meet the minimum performance standard and there will be a debate over that.

Q318 Stephen Barclay: Do you think it is commercially neutral for NMP?
John Clarke: Reachback?
Stephen Barclay: Yes.
John Clarke: Reachback is intended not to be cost beneficial to NMP and the arrangements in place are such that they recover their costs of reachback, they don’t earn profits on that reachback.

Q319 Stephen Barclay: In terms of developing the supply chain, do you think that’s commercially neutral?
John Clarke: I do not think there is a direct benefit or disbenefit to NMP developing the supply chain, other than getting the work done quicker. If they can get the work done quicker at lower cost, then NMP would take a benefit on an efficiency-based contract, so they are incentivised to have a better supply chain.

Q320 Guto Bebb: In terms of the reachback, are secondees appointed by reachback through NMP?
Tony Price: They are actually requested by the site, so if we see a deficiency at the site, we would request reachback.
Guto Bebb: But they would be the secondees, then.
Tony Price: They will be from the parent body companies, yes. I do not think we have communicated the use of reachback very well. In answer to the previous question, what we are doing is replacing reachback people with incumbent people who we have trained up. Over the past six months, we have reduced reachback by 40% and promoted our own people at the site into those positions.

Q321 Guto Bebb: Is that in response to the fact that the KPMG report, for example, highlighted the fact that the significant turnover of secondees was actually creating a problem in terms of continuity?
Tony Price: No, we did that before the KPMG report was available.

Q322 Guto Bebb: Do you then accept the criticism in the KPMG report that the secondees and the turnover of secondees was a problem in terms of providing leadership? The report is very clear on the fact that they feel that the significant turnover in secondees has resulted in a lack of continuity in terms of leadership and management. Would you accept that?
Tony Price: I think we have poorly communicated what reachback is about, why we bring people in, how much it costs and what legacy they leave. Just looking at the successes of reachback, there was the vitrification plant that I talked about earlier. We talk about large projects in legacy ponds and silos and there is a particular project there which has been accelerated by 20 years.

Q323 Guto Bebb: In terms of bringing in expertise?
Tony Price: That was bringing in expertise from the parents. That, to me as a managing director of Sellafield, is a very positive dimension of having parent body companies available.

Q324 Guto Bebb: I am sorry to go back to the report, but this needs to be clarified. When the report says, for example, that in terms of secondees, there is a feeling that NMP are not deploying their A team, it would imply that the best that you have are not being applied to this contract. Would that be accepted or would you challenge the report in that context?
Tony Price: I have been on the site for six months and I make sure that we do get the A team.

Q325 Guto Bebb: For six months? So would this report probably pre-date that period?
Tony Price: It would do. I suppose I am in a fortunate position. I have reports like this available, previous reviews and so on, and what we have learned over the last five years. What we have done very quickly is reduce the number of the executive on the site. We had a 19-strong executive. I have an executive now which is nine strong, 10 including myself. Six of those are British, two are Americans and two French. In that, what I have tried to do is get the right balance from the parent body company so that we get the right calibre of people. I think we have enhanced the calibre of people and we have elevated the focus on decommissioning.

Q326 Guto Bebb: So you do not necessarily accept these comments from KPMG. Moving forward, those comments should not be made?
Tony Price: I think it is for us to demonstrate that reachback is value for money for the taxpayer, and we can do that. Tom Zarges: I would not accept that we are looking backwards either. We have been very conscientious about making sure, because we have limited people that we put on site, that they are the best calibre people we can provide.

Q327 Guto Bebb: But to be fair, this is not just KPMG. OGC Gateway 5 noted “Concerns that the high churn rate in the NMP executive team coupled with a worry that NMP may not have their ‘A’ team deployed” is creating concerns. That is a pretty comprehensive comment; it is not by KPMG, it is just being quoted by it. You might dispute it, but you are disputing two reports on the issue now.
Tom Zarges: There is consistency in the approach, although people do change over five years. The approach, the practices, the procedures and the way in which they are put in place are correct.

Q328 Guto Bebb: I recognise that people change but the promise to churn is implying that that is happening at a pace which is perhaps inappropriate. The key question I want to ask on this issue is in terms of NDP:
My understanding is that any churn should technically be with the approval of the NDP.

**John Clarke:** NDA.

**Q329 Guto Bebb:** NDA—sorry. So if there were concerns about the churn, were those concerns highlighted by yourselves?

**John Clarke:** We have had discussions about the rate of turnover, and think it would be fair to say that, on occasions, we have bought in people who have had the perfect people in some of the positions.

**Q330 Guto Bebb:** So you would accept that the KPMG report was correct in this?

**John Clarke:** I would accept that the views expressed in the KPMG report in this instance align with my views. I think we have had some extremely good people brought in from NMP and on occasions, I do not believe that we have perfect people.

**Q331 Guto Bebb:** So in terms of moving forward, what steps are you taking in the new contract to ensure that you have more control on that issue?

**John Clarke:** We just have to be clear. To speak to Mr. Barclay’s comment that I tried to comment on before, we have to be careful about saying “changes to the contract”. We have consciously not changed the contract structure itself.

**Q332 Guto Bebb:** That is the concern that I have.

**John Clarke:** Can I just explain why that is? We let a contract in 2008 with a particular contract structure, having gone through a competitive process in accordance with the public procurement regulations and European requirements. We did consider—there is reference made to it in the KPMG report as the so-called plan A—making changes to that contract to give a different outcome. Our judgement was—and we took extensive legal advice—that the risk of legal challenge in making the changes of the nature we were talking about was significant. Therefore we chose not to.

**Q333 Guto Bebb:** That is very concerning because what you are saying in effect is that even though you have three red crosses in a 17-year contract, you feel that you are actually tied to a contract for 15 years or 17 years because of the possibility of legal challenge.

**John Clarke:** No, I am not. What I am saying is that we felt the risk of challenge in making the changes we were talking about to the contract outweighed the benefits we would get from making those contractual changes.

**Q334 Chair:** You would have to go back to a competition. Is that what you are talking about?

**John Clarke:** Yes. In the judgment, our decision could be turned over.

**Q335 Chair:** Would you be able to provide us with a note of the key measures that you are going to take to decide whether or not to continue or terminate the contract?

**John Clarke:** I would happily provide information on that.

**Q336 Chair:** Because when we come back in a year’s time we would like to see how you have performed against those key measures.

**John Clarke:** I would be very happy to do that. There is a defined set of enabling activities with targets and dates—they are very specific. I would be very happy to provide a note on that.

**Q337 Chair:** May I ask a question of Guto about his views. What Guto was saying? Why, Mr Price, would you use the expression about your new management team that it has an “elevated focus” on decommissioning? That suggests that it did not before.

**Tony Price:** It is.

**Q338 Ian Swales:** Why would you use that expression? That suggests that the previous management team had a lower focus on decommissioning. That is very scary given the amounts of money involved here.

**Tony Price:** To clarify, it is the case that it has been important. We are on a journey here. If we went back 10 years ago, the primary focus was on reprocessing at Sellafield. In fact, we still are reprocessing at Sellafield. We are focusing more and more attention on decommissioning and we have elevated and put additional strength into the team. We have brought some further reachback people in and are starting to see the dividends of that being paid.

**Q340 Chair:** This is all in the last six months, Mr Price, since you have been the fourth director on the site? Is that right?

**Tony Price:** What we are doing here is that I am building on the foundation that has been put in place. As you said, safety and security are key issues. Fukushima also happened during the last five years, which took up a lot of time and investment.
Q341 Ian Swales: That is a great excuse, but whose time and what investment?

Tony Zarges: If I can help for a moment. The term “focus” seemed to be catching your mind. Let me define what we have done. We have reorganised our site organisation so that there is a specific directorate for legacy ponds and silos decommissioning. That directorate now has embedded in it all the functions and skills directly in that organisation to prioritise that against all other tasks. There is another directorate for nuclear operations and another for project delivery, so we have organised the site among the three principal tasks.

Q342 Ian Swales: This comes back to something I was asking earlier. I would have thought that the organisation and focus of a £70 billion project wouldn’t need all that. You profess to be expert in project management and have been telling the Committee today how expert you are and how you have brought all this expertise into the area, and yet there is an overriding sense that there was insufficient focus or project management and, even after five years, we are still making improvements. It beggars belief with the amount of money we are talking about.

John Clarke: May I make an observation on the increased focus? We have been progressively increasing focus on legacy ponds and silos and the decommissioning challenge. As we said earlier, Sellafield does a range of other activities. In the early days of NMP one of the key concerns was to make sure that fuel receipts and reprocessing of advanced gas-cooled reactor fuel from the stations around the UK were maintained. We had very limited buffer capacity in the event of a problem at Sellafield. Quite quickly, this had the potential to take down AGR stations and impact up to 15% of the UK’s generating capacity. Over the past few years, that has been increased so that there is almost a year’s capacity—a really significant increase—that provides robust stability for UK nuclear electricity generation.

Q343 Ian Swales: You are now raising another spectre which is that there is not a very good separation financially and organisationally between the money that you have been allocated for decommissioning and the other activities on the site. Is that something that you are now suggesting?

John Clarke: The NDA has allocated money to perform all the activities at Sellafield, which include ongoing support of receipt of fuel from power stations in the UK, the reprocessing of that fuel and the decommissioning. We account for that very clearly.

Q344 Guto Bebb: Just to finish on the second detail. You were saying that your contract can’t be changed. That is a key question. You recognise that there was an issue in terms of churn. You were not happy that you had the right people on site at all times through the reachback to the secondeed programme. You have the right to make sure that no secondee can leave without the NDA’s permission. That is my understanding.

John Clarke: Acting within reason, yes, we can.

Q345 Guto Bebb: Within reason. So clearly the churn we had in the first five years would indicate that you did not actually use that power? The question I have is: will you be using it moving forward?

John Clarke: We have to act reasonably. If you take the managing director—

Q346 Guto Bebb: You were saying quite clearly that you accept that the churn is unacceptable and that it has resulted in a lack of leadership at times—I think you have given that as evidence—yet you have not utilised your power to refuse permission for people to leave. If you are saying that you feel that there has been a lack of coherence as a result of the secondee churn, it would be reasonable, in my view, for you to refuse permission on occasion.

John Clarke: There are two aspects. There are the secondees—the executive team—who were 19, but now nine. There is also the reachback, which peaked at more than 100. We do not have the same right on the reachback; we only have that on the executive secondees.

Q347 Guto Bebb: That is specifically why I asked the question about whether the secondees were part of the reachback programme. No one disputed that they were.

John Clarke: In the report, they are considered as two different items. The secondees are secondees directly into the site licence company, and they take up key leadership appointments in the licence company. Reachback is, in essence, accessing the supply chain effectively, but it is doing so directly through the partners by bringing people in quickly to do that. We do not have the right of hold over reachback; we do, acting within reason, over the executives. It would be too blunt to say that we are dissatisfied with leadership and that people have turned around too quickly. There is the example of Mr Price’s predecessor, who spent five years on the site. That is a good period of time to spend on the site.

Q348 Guto Bebb: But you accept the findings as they stand?

John Clarke: On occasions, there have been people who have left too soon. The rate of change of the managing director has been disappointingly rapid. But I accept the reasons for those. Two of them, regrettably, were due to health issues.
Q349 Chair: Meg Hillier is desperate to come in. I just want to complete the reachback. Can you give me the cost per individual of someone who is employed on the site by reachback—the average cost per individual?

Tony Price: It is a range. It depends.

Chair: The average cost. It is in the report. I just wondered whether you could give it to us.

Tony Price: I do not have that information with me.

Q350 Chair: The average cost is £300,000 per individual.

You said that you have reduced reachback. What did you spend on reachback in 2011–12?

Tony Price: I think it was around £25 million.

Q351 Chair: It was £17 million in 2011–12.

What did you spend in 2012–13, when you started cutting it back?

Tony Price: We have just started cutting that back over the past six months.

Q352 Chair: You went up to £25.9 million. I appreciate that we are now halfway through 2013, and you are saying that you are cutting back, but in 2011–12, it was £17 million, and in 2012–13, it was £25.9 million. The cost per individual is £300,000, so it went up. If you are cutting it back, you are not back to your 2011 base.

Can I refer again to KPMG's report? It clearly says that reachback has not been used appropriately, Mr Zarges. I think that it is a way of getting money out of the taxpayer into your company. It says—

John Clarke: Could we have the page number?

Chair: Page 148. It states: "Costs are significantly greater than anticipated in either CB10 or PP11."

Average cost is what we got to—I am looking at the wrong one; I am probably looking over the page. I am really sorry; I mean page 149.

Page 149 says: "However, the use of reach back to source other skills (back office, project management etc.) was inappropriate. You have been employing people on the site, Mr Zarges. If you look at it, 12% was in project management and 27% was in operational or back office functions. We are talking about £26 million last year. Some 14% was to support the office of the managing director. All of that could perfectly well have been sourced locally. It would have saved the taxpayer money and would have meant more jobs locally in the Cumbrian community."

Tom Zarges: For specific people who do specific tasks, it is an important thing to do to ensure that the best practices in other obligations that we have to improve operations on site are obtained.

Q353 Chair: With respect, what I said was that these are back-office people and project management. I don't think there are Americans, French or anybody with back-office skills that cannot be recruited in Cumbria. These cost £300,000 per person.

Tom Zarges: These are fundamentally specialists. I am not sure what positions they are referring to but we would not recruit anybody from another country to do a mundane job, I can assure you.

Q354 Chair: I think you do. According to this report, in 2012–13, "14% related to the Office of the Managing Director", which strikes me as being admin staff to support him but I may be wrong. "12% related to project management"—there are plenty of project managers in the UK—"and 27% to operational or back office functions" KPMG said that the sourcing of "other skills (back office, project management etc.) has been questioned as these are more generic and could likely be sourced from within the UK at a lower cost".

Tom Zarges: We are gradually doing so, but the first task that we see is to embed best practices, procedures that we are familiar with, understandable—

Q355 Chair: These are not experts, Mr Zarges. These are people who are costing the UK taxpayer on average £300,000 and who are doing jobs that Cumbrian people could fulfil.

Tom Zarges: I would contend that each has a special expertise that has been found lacking on site.

Q356 Chair: Have you got the report in front of you?

Look at page 149. These are not experts.

Tom Zarges: I understand what they say.

Q357 Chair: The evidence we have before us suggests that it is not experts you are bringing back. Can I just ask you one other thing on this? We heard last time that an audit of 606 expenses claims on the UK taxpayer found that you claimed over £250,000 on things that could not be justified such as trips to masters tournaments. Is there anything you would like to say about that, including the infamous £714 taxi trip for a cat?

Tom Zarges: That is obviously misreported. There was never such a claim for reimbursement.

Q358 Chair: There was a cat in a taxi.

Tom Zarges: There was a cat in a taxi with a family that was going home and being repatriated to the United States.

Q359 Chair: Yes, £714.

Tom Zarges: They were going to the United States with the luggage, and the cat was in a box.

Q360 Chair: But £714?

Tom Zarges: This was a relocation trip.

Q361 Chair: I don’t think I have ever—where would you spend £714 on a taxi? I don’t even think a taxi from Cumbria to Heathrow would cost that.

Tony Price: Just to be clear. There is not cost to the taxpayer here. We regret that we did not pick this up but we took swift action. We have put procedures in place that are robust enough to demonstrate to me as a managing director that we are in control of the situation.

Q362 Chair: Will you apologise to the British taxpayer for the £250,000 of expenses claimed as a sample of 606, which could not be justified?

Tom Zarges: We apologise, obviously, for the errors that we may have made, and did make, in submitting
these expenses incorrectly. We apologise and we are sorry for that. With that apology comes the requirement that we fix it—and we make it right to the British taxpayer, which we have. I think, to the satisfaction of all concerned. The immediate amount in dispute—dispute is the wrong word—in question from the audit was a much smaller amount. The day we discovered it we immediately reimbursed a full year’s worth of expenses to the NDA and then only resubmitted expense reports after they had gone through a rigorous review to make sure that they were proper and that they were documented to the appropriate level so that they are, indeed, legitimate claims. There are instances where secondees, for example, may have a parent company policy. There may also be a policy for Government reimbursement. They may have put them in the wrong place, to the wrong payee. We have created disciplinary action to make sure that that does not recur. We have created training to make sure that the proper coding and the proper direction is maintained. Most of all, we took quick, earnest and wholesome action to make sure that as soon as those events were discovered we corrected them immediately and correctly them for the future. We are sorry that those errors occurred, just to be clear, and to answer your question. We admit that there were errors and we are dedicated to correcting errors wherever they occur and correcting them well and quickly.

**Amyas Morse:** I have a couple of quick questions. One is to Mr Clarke. When you are so kindly replying to the invitation to put forward some improvement objectives, it would be great if that was not the whole objectives schedule that is in the strategy for excellence at Sellafield, because it is really quite complicated—there is a huge number of work streams. It might be helpful for the Committee to have the top few, with some clear, measurable objectives against them.

**John Clarke:** We will do that.

**Amyas Morse:** Secondly, I had a question earlier about reachback personnel. I just wanted to understand, when someone is requested to come on reachback, there is presumably a period for which they will be expected to be in place, when that requisition happens. Is that right?

**John Clarke:** That is how it is now. I would have to acknowledge that in the past, the control of reachback has not been as robust as it should have been. I think that is reflected in some of the findings of the report.

**Amyas Morse:** I ask that, because a lot of the debate about the issue might be cleared up if you were able to look at the original period for which reachback personnel were requested, and whether they actually served out that period or terminated earlier and were replaced by someone else. If I may suggest it, you might think about having something like that very clearly in place, so that when we come to have these discussions in the future, we can be satisfied that people were appropriately qualified for the job and that they actually stayed out the time for which they were requested, if not longer.

**John Clarke:** We have modified the arrangements for reachback to ensure that for each and every reachback, we understand what task is required. Why is reachback the answer and not direct recruitment, or somebody in the licensed company, or other use of the supply chain? What is the duration of the reachback? What are the arrangements—are they that we need this capability for only six months? In which case they come, they finish and they go. Or do they come in and spend a period of time training up that capability? Who will they train up and over what period of time?

**Amyas Morse:** So in future you will have auditable records of these things.

**John Clarke:** Correct. Unfortunately, we have not had that discipline in the past, which I think is reflected in the findings of the report.

Q363 Guto Bebb: Specifically on reachback and the efforts you made to try to control it, my understanding is that under the current contract, they have allowed 50,000 hours of reachback in a year, but that has been exceeded in every single year of the contract. Indeed, in 2012–13, 159,000 hours were charged under reachback, rather than 50,000. Are we going back to the 50,000, or will it be at a level over and above that?

**John Clarke:** Fifty thousand was the expectation of the number of hours required.

**John Clarke:** It has been massively exceeded.

**Guto Bebb:** How often do you change the estimates then?

**John Clarke:** It is a continuous review. We do not want 50,000 man-hours of reachback; we want appropriate reachback for the nature of the task. The expected number was 50,000 when the contract was let.

**Guto Bebb:** If that was the case, why were the figures in 2012–13 more than three times the anticipated estimate?

**John Clarke:** Because we had found that the level of performance we were getting was not that which we desired.

**Guto Bebb:** If we were not satisfied, would you have a policy of reducing the expected number?

**John Clarke:** We do have a policy of reducing the expected number, but clearly that was inappropriate in this case.

Q367 Chair: Do you accept the KPMG view that it is currently inappropriate? They are saying that it is being used inappropriately for “back office” skills at an average of £300,000 per person.

**John Clarke:** I accept that reachback has not been as controlled as it should have been, and I accept that, on occasions, there has been reachback that we have been disappointed with. I think that “back office” is slightly misleading. On page 149, the report refers to the fact that reachback in the office of the managing director was for reviews. It is misleading to say that they are back office—these are people who have come in to carry out specific programme and project reviews on behalf of the managing director. Although it
appears as a back office cost because it is charged under the office of the managing director, the capability being brought in is actually very experienced, senior people who have operated around the world, coming in to do project reviews.

Q368 Guto Bebb: We accept that, but the point is that if reachback goes over 50,000 hours, the costs actually increase as well. John Clarke: That was the case for a period of time, but we have reset that for the second contract period. All reachback will be at a single cost. We have not set a cap of 50,000 though; we want to make sure that reachback is—

Q369 Guto Bebb: The additional element of cost incurred under the previous way of operating has been changed. John Clarke: Correct. That will not be incurred. We have gone back to the intent of the original contract in terms of how it is managed, but we are not setting a limit. We want to see—to go back to Mr Price’s comment—reachback as a positive. We engage these large, internationally successful private sector companies to bring in their capability. We want that capability.

Q370 Meg Hillier: Just before we finish on reachback, Mr Price, you talked earlier about the vitrification plant. AREVA brought reachback people in to sort that out. Is it working now? Tony Price: It is, yes.

Q371 Meg Hillier: I understand that there are problems with it right now, in that the ventilation system is not working properly.

Tony Price: That is not correct.

Q372 Meg Hillier: Can you perhaps explain what a vitrification plant is in layman’s terms, and then explain where it is at the moment?

Tony Price: It is where we take highly active liquor and turn it into glass, basically, so that it can be containerised and stored at the site. As it says in the report, over the past few years we haven’t met our vitrification targets. However, this year we will meet them. A significant input to that performance has been the use of reachback, and using the AREVA team to come over and help us. They spent a short period of time with the vitrification team, then returned back to their parent body company. That is a good example of where reachback has worked very positively.

Q373 Meg Hillier: So that is working fine now and workers are able to work in it normally—there are no problems with ventilation or anything like that?

Tony Price: They are able to right now, yes.

Q374 Meg Hillier: So the reachback team have gone, and that’s it?

Tony Price: Reachback is gone. Reachback in totality across the site has halved this year.

Q375 Meg Hillier: Thank you. I just wanted to touch on governance. Without going back into the complete history of it, as I understand it, directors from NMP companies—the three companies—are also directors of Sellafield Ltd. Is that right—Mr Zarges, are you a director of Sellafield Ltd as well?

Tom Zarges: No, there is only one concurrent director, who is Mr Price.

Q376 Meg Hillier: Okay, so it is just you, Mr Price, who sits on both?

Tony Price: I am a director of NMP, but also a director of the SLC board. I have three other directors who are executives on my executive team, who are on the SLC board.

Q377 Meg Hillier: So they work for NMP, or the companies of NMP?

Tony Price: They work for the parent body companies, yes.

Q378 Meg Hillier: What percentage of your directors are also NMP directors?

Tony Price: I have nine executives on my executive board. Three are from URS, two are from AMEC, two are from AREVA and two are incumbents.

Q379 Meg Hillier: So there is nobody who has not got a foot in both camps? I am just doing the maths quickly.

Tom Zarges: The parent companies are separate from NMP. NMP has a governance structure that includes a board and there are board members of NMP. What Mr Price is talking about is individuals from the parent companies who are assigned to the site and become directors of the SLC. We each have a board: there is an SLC board and an NMP board.

Q380 Meg Hillier: My experience of Government and public life suggests that it is quite good to have people who are separate and independent to oversee things, so I am a bit confused about how there is no conflict.

Tom Zarges: We agree. We invite Mr Price to the NMP board just to make sure that he is present for deliberations about status and performance, and is there to give us information when we require it. We pull other people in from the SLC as well. We have a lot of people who sit on both boards.
John Clarke: There are two aspects. We are separate and independent. We do not sit on any of the boards, be they of the licence company or the parent-body companies. We hold them to account. The second observation I would make is that under the Nuclear Installations Act, the directors of the company—

Meg Hillier: Of Sellafield Ltd?

John Clarke: Yes, the directors of Sellafield Ltd have to act in the specific interest of Sellafield Ltd. Mr Price and his colleagues are seconded in sign legal secondment agreements that say that they will put the interests of the licence company first and foremost in everything they do.

Q383 Meg Hillier: What is the sanction if they don’t and how would you know?

John Clarke: It would be a breach of the Nuclear Installations Act, as amended.

Q384 Meg Hillier: Does that mean they go to prison?

John Clarke: It’s a breach of the law; I don’t know what the precise sanction is, but it is clearly breaking the law if they do not follow that.

Q385 Meg Hillier: So the judge will decide. How do you know that they haven’t? For instance, look at the rationalisation of the supply chain, which is the biggest interest area to me. The Design Services Alliance was set up, and NMP members were in the consortium that bid for that. There is a benefit to Sellafield Ltd board members making a decision that will benefit NMP component companies.

John Clarke: On aspects like that, we review those contracts that are let. They are let by Sellafield Ltd; they are not let by NMP. We review those contracts to ensure that they are run with a clean and fair process. The regulators have, in part, an oversight on other activities—as do we, but the regulators provide additional oversight—such as taking actions in the interests of safety, that may not be in the interests of commercial interests, because their concern is to ensure that Mr Price and his colleagues act at all times in the best interests of the safety of the site.

Q386 Meg Hillier: It does come across as a bit murky from our perspective. We are not dealing with it every day, but thinking of the local supply chain, if the companies that run Sellafield Ltd and NMP are deciding it, effectively among themselves—albeit with some oversight—how does the local supply chain get a look in? You have the big players already at the table, determining the contract, letting the contract and winning the contract. Perhaps I am being obtuse, but it seems to be not very transparent.

Tony Price: It is. There is blue water between ourselves and the tier 2s that we award to. One thing that we are driving for is getting the maximum amount of the £1.7 billion into the local supply chain and the local community in general. We spend £650 million on salaries and that goes into the local community. We spend £300 million in the local supply chain as well, so more than half our budget goes directly into Cumbria.

Q387 Meg Hillier: May I stop you? We have covered that in previous reports and, with respect, we do not need to rehearse it all. The salaries were known to be good, but, because they are good, that can stifle people setting up other businesses. That £300 million you talk about going into the local supply chain is peanuts in comparison with the overall size of the contract—you are getting as much money from the taxpayer as, comparatively, all of England’s regeneration projects. Only £300 million is going into the local supply chain, yet the Design Services Alliance was set up and benefits those companies already involved and not necessarily local people.

Tony Price: What we are striving for is to encourage more of the DSA to be worked out of west Cumbria. We are succeeding there. It has generated 200 jobs and 100 of those are in west Cumbria. We also awarded the Infrastructure Services Alliance contract. The two companies working for us there have a presence in west Cumbria and are taking on local apprentices. A lot of the people who work for them are based in west Cumbria. Through the movement of the services alliances, we are encouraging them to base their workers in west Cumbria.

John Clarke: If I can add to that, we are keen to ensure that the benefit to the nation and the local area in which we operate is maximised, but independent research has shown that 30% of the supply chain spend from Sellafield is spent in one county: Cumbria. Cumbria is not a hugely industrialised county, so that spend is not insignificant. There are opportunities to do more, and we have worked very closely with other Departments and the Cabinet Office to look at how we can ensure that we get the best regulation-compliant procurements that maximise the opportunities for the UK and, in particular, the local Cumbrian supply chain.

Q388 Meg Hillier: Can I touch on staffing? You said earlier, Mr Price, that you recruited 700 people for a particular area of work and you talked about a couple of hundred in another project in the supply chain. What is the long-term planning for the work force? If jobs stop and start, that does not do any good for the British economy or the nuclear industry internationally. What thought have you given to that? Where does the responsibility lie for that and what are you doing about it?

Tony Price: That is part of the planning moving forward. We are leading the site, over the next two to five years, through the largest transition in its history. We are moving the site from primarily being a reprocessing facility into a site that will host a fleet of high-hazard waste retrieval, waste management and waste storage plants. The shape of the organisation will definitely change over that period. We want to ensure that the people on the site have the best opportunity. Through retraining and moving them into these new projects, the incumbents will be used and we will maintain that level of staffing requirement as we move forward. However, there is another requirement that we have to the taxpayer—to demonstrate value for money. We are looking at efficiency, productivity and being able to benchmark ourselves with the outside world.
For me, the position I would like to see for Sellafield is to be recognised as an honest, efficient and hard-working group of people. We know what our number one mission is—that is the NDA’s mission, and we are absolutely aligned to that. However, if there were opportunities in the future to bring more work into west Cumbria and we could play a part in that, if we are seen as this honest, efficient, hard-working group, I hope we would be the choice to do that work.

Q389 Meg Hillier: What is the incentive? Is there a financial incentive for Sellafield Ltd or NMP to do this?

Tony Price: It is for Sellafield and the people of Sellafield. That is part of the strategy in moving forward. We are creating a site strategy and we have the overview of that in place. It is really about this transition.

Q390 Meg Hillier: But if you understand what I am saying, with the difference between not doing it and doing it, what is the incentive to do it?

Tom Zarges: It is a requirement from the NMP board that Sellafield Ltd execute a socio-economic policy that emphasises local procurement wherever it is practical and possible. Obviously, there are balancing acts there between value for money and bidding processes that we have to observe, but we are coaching a lot of local enterprises in how to respond and perform better and making them more proficient at answering the call for the supply chain procurements that we have in mind, particularly over the next five years. We do impose that requirement directly on Sellafield Ltd.

I would also add, just as another flavour, that the parents also recognise their own obligation to the local community. As you probably know, we have put £22.5 million into socio-economic benefit over the past five years. That is a little more than 10% of our fee, so it is a massive commitment, and it is one that we are quite proud of. Those benefits are bestowed through an objective agency that looks at programmes and projects on merit and ensures that the money is used effectively.

Q391 Meg Hillier: I am not knocking anything like that. Helping enterprises establish, set up, grow, recruit and perhaps become international is to me a bigger prize. Just to put you on notice that when you come back, I and other Committee members will have been watching that. Mr Zarges, did you see our last Report on Sellafield that we did a year or so ago?

Tom Zarges: I believe I scanned it. Do you mean a transcript of the previous meeting?

Q392 Meg Hillier: We produced a Report that has the transcript in it.

Tom Zarges: I may have seen parts of it.

Q393 Meg Hillier: You didn’t respond, and John Clarke would probably say that it is the NDA’s job to respond, but this comes back to where responsibility lies. When we produce this Report, will we get a response from NMP or Sellafield Ltd?

John Clarke: The actions from the last Report were all on the NDA. We have taken those actions very seriously and are responding to them. We are making good progress.

Q394 Meg Hillier: If we put actions in this Report, which we might do, I don’t know, we haven’t decided what we are going to write yet—

Tom Zarges: Of course we will respond.

John Clarke: Yes.

Q395 Meg Hillier: To address the NDA, we talked a lot last time, so I won’t revisit it, about why you decided to go ahead with renewal of the contract. You do have this clause in the contract. You are quoted in the last hearing—though I won’t repeat it back to you—on the importance of the immediate termination clause in the contract. If you had invoked that you must have had a plan B in mind. What is plan B, if you had not renewed this and don’t renew it in future?

We are building up the supply chain and the expertise. Is that the plan B, or is there something else you have in mind?

John Clarke: At the time of making the decision, we had two other options: not very imaginatively called plan B and plan C. The two other options were to go back to the market to seek a different contract and/or contractor and to dispense with -.

Q396 Meg Hillier: In a very small field.

John Clarke: There were a lot of players.

Q397 Meg Hillier: I didn’t pick that up from last time.

John Clarke: We have more than a dozen companies competing for our Magnox and research reactor sites at the moment. We had about 10 companies competing in different consortia for Sellafield a few years ago. I am confident there is a market there if we want to go back to the market.

So we looked at going back to the market for a different contract and/or contractor, and we looked at dispensing with a parent body and operating with Sellafield Ltd as a direct subsidiary to the Nuclear Decommissioning Authority.

Q398 Chair: What is plan B now?

John Clarke: Both of those remain options as we go forward.

Q399 Chair: Will we get to the position? It seems to me that you delayed taking action so the only action you could take was to extend this contract. How are you going to convince us that you are developing plan B to a point where it can be a real alternative, if this contract continues to fail in the way it has in the past?

John Clarke: We do have a plan B available to us now, and we are obliged to have plan B available to us at all times. This is an odd way of saying it, but under the nuclear site licence requirements, the only way we are allowed to have a parent body is to demonstrate we can operate without it. We must not allow the parent body to take on duties that tie us inexorably to being stuck with the parent body—not least because if the parent body was to go bust and...
disappear overnight, we would have to make sure that safety, security and environmental performance were maintained.

Q400 Chair: Safety and security is different. My impression of how you got into extending the contract was that the alternatives were not sufficiently developed. You will come back on your key measures in a year’s time to see whether they continue to fail or have improved performance. What assurance can you give the Committee today that you can actually implement your two plan Bs—either to go to a competition and get somebody else in, or to take over responsibility, cut out the middle person and deal directly with Sellafield Ltd?

John Clarke: We will continue to develop those other options.

Q401 Chair: So they will be real alternative options ready for when we come back to this in a year’s time?

John Clarke: Absolutely, and I believe that we had options at the point at which we made the decision. We chose that this was the optimum decision for these circumstances at this time. We are committed to making this work going forward, but as I have said previously, we will monitor performance and if it doesn’t continue to deliver the optimum likelihood of success going forward, we will make a change.

Q402 Meg Hillier: I have specific questions about particular projects. I have been to visit the site, as a number of us have. Can you update the Committee on the B41 decommissioning at Windscale?

Tony Price: That project is in the planning and design phase. That is very complex, probably the most complex. There are two silos projects on the site. We have looked at an alternative to the original plan, which was a very expensive plan that was going out to the right. Within the next couple of weeks we will decide on our way forward with that particular project.

Q403 Meg Hillier: Can I ask what the original budget was for this project?

Tony Price: The original budget was £342 million.

Q404 Meg Hillier: And what are the estimated costs now?

Tony Price: Right now they are around £620 million. However, we are, as I said, looking at an alternative to the original design. We felt that it was a very complicated design. We have a team looking at an alternative way forward. I think that we are quite confident that that is the way we will be going forward, but we won’t make that decision until just before Christmas.

Q405 Meg Hillier: That is a huge increase, but it is too late in the day to get into the detail of that. Can I just ask about the project value of another project—the Separation Area Ventilation project?

Tony Price: We have spent £150 million to date. We have put that project on hold to look at the design moving forward. We estimate a final cost of £224 million. That has to be determined; we are still working up that estimate.

However, the SAV project is one where we have had disappointments in performance. We have had to put those right. As Mr Zarges said earlier, we have injected a different level of project management expertise to help the project. We have better integrated with the supply chain. So we have taken the learning out of that particular project. That project and evaporator D are the two projects that we have learned the most from. We have certainly put those right.

Q406 Meg Hillier: Those figures are just going northwards. They are huge figures. Perhaps I could ask you, Mr Zarges. After all the financial scandals about individual expenses and mismanagement, as highlighted in the KPMG report, do you think there was a more efficient way that you would have done this from the beginning, knowing what you know now?

Tom Zarges: We have learned some lessons from them. Obviously, we would not be who we are unless we could learn from these and make sure that we do not repeat the lessons of the past.

Q407 Meg Hillier: The lessons have been at the cost of the British taxpayer. So the British taxpayer has been funding a very big learning curve. Have you any comments about how you would perhaps have saved that money for the British taxpayer?

Tom Zarges: We have a number of other programmes that are in evaluation where we think alternatives exist that could provide some savings over and above some of the plans that we have had in place to date. So we are innovating and doing as much as we can to establish different means, methodologies and less complex solutions, to ensure that we can find solutions that don’t increase cost, but rather bring costs back. You mentioned one of them today, but we have several others that we are looking at.

Q408 Meg Hillier: So would you have done anything different?

Tom Zarges: Yes. Obviously, there are a number of things that we’d probably do differently. One is to control the design gated process better—make sure that before we started construction, the design was finally and firmly committed and complete.

The other would be to make sure that we had a much stronger, tighter, interactive relationship with many of the subcontractors that we have used on the job. We have obviously hired the best that we could find and subjected the bid to evaluation, but we have sometimes been disappointed that they haven’t been able to measure out their commitments well against the contract requirements or the performance requirements. We believe that we should have and could have helped them to navigate the site and make sure that they were addressing their commitments and plans going forward in a much more interactive way.
Q409 Meg Hillier: It sounds like you have got a lot to say about the subcontractors and that they were the problem.

Tom Zarges: No, I am not saying that. They are our subcontractors. We own the problem, regardless of whether we choose to do the work or whether it is done through a subcontractor. It is all our responsibility.

Q410 Chair: I am going to bring this to an end. On Meg’s last point, my view is that your interest has been the shareholder value, which clearly has to be yours. That has not been properly aligned, Mr Clarke, to taxpayer value. That is one of the conclusions that comes out of KPMG. The taxpayers lost money while your shareholders have, no doubt, made a good buck out of this and it is not very satisfactory.

We wait to see whether the situation improves. It would be nice if there was an apology for the lost millions to the British taxpayer—I do not know whether you feel able to do that. I have to say to you that I am sceptical as to whether, after five years on the site, you can really improve your performance.

Tom Zarges: We appreciate the opportunity to give you a final word or two. First, I want to assure you that we are totally aware of our obligation to the taxpayer. This is not an agreement about self-aggrandisement; it is about performance—reputational performance and performance on this project. What drives companies like ours fundamentally is doing important things, and the people in our company are driven by important challenges. That is the nature of our business and we have got to succeed on that to enhance our business.

So it is not about earnings, but performance first and foremost. If earnings follow performance, because that is the rational connection, so be it, we’re happy for that, but our first interest is making sure that we perform well. Obviously, when we sense our responsibility to the taxpayer, we think first and foremost about safety and safe stewardship, ensuring that the safety and resilience of the site is maintained. Equally, we want to ensure that our performance creates the proper value for money going forward, and we are absolutely dedicated to that.

I would tell you that while we have had achievements, we are not satisfied with those achievements. We are a long way from satisfaction. As we have remarked today, the pace of these improvements has not been what we wanted. There have been disappointment and shortcomings, which we sincerely regret. Equally importantly, there have been errors and failings, which you have brought to our attention today, and which we recognise. Some have been self-discovered and some have been discovered by others, but blame should be laid solely at our feet. Of course, we are humble and truly sorry for any of those events that have cost the British taxpayer money and added the cost of tuition—learning what is necessary for the job. We can say that we are sorry and humbled only because we have equal resolve to set things right. I want to assure you and all members of the Committee that we are fundamentally driven to ensure that the improvements are enacted on site and are driven home. We must have transparency, visibility and performance accountability. That certainly is our obligation for the second term and for the future. I do want you to know that it is our absolute intent to live up to those obligations and to be proactive about recognising them and trends in performance, and moving on them aggressively.

Chair: Okay. Thanks very much for your attendance.
## Written evidence from the Nuclear Decommissioning Authority

### PROJECTS IN THE PLANNING AND DESIGN PHASE

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Year project initiated</th>
<th>Years in planning/design stage</th>
<th>Estimated cost at initiation (£m)</th>
<th>Estimated cost in performance plan May 2011 (£m)</th>
<th>Estimated cost as at March 2012 (£m)</th>
<th>Estimated cost as at September 2013 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk sludge and fuel retrievals</td>
<td>2004</td>
<td>8</td>
<td>73–229</td>
<td>227</td>
<td>233</td>
<td>330</td>
</tr>
<tr>
<td>Pile fuel cladding silo</td>
<td>2005</td>
<td>7</td>
<td>150–495</td>
<td>342</td>
<td>341</td>
<td>750</td>
</tr>
<tr>
<td>Box encapsulation plant product stores comprehensive import/export facility</td>
<td>2006</td>
<td>6</td>
<td>108–119</td>
<td>277</td>
<td>281</td>
<td>192</td>
</tr>
<tr>
<td>Silos maintenance facility</td>
<td>2006</td>
<td>5</td>
<td>49–180</td>
<td>165</td>
<td>165</td>
<td>238</td>
</tr>
<tr>
<td>Highly active liquor storage tanks</td>
<td>2007</td>
<td>5</td>
<td>83</td>
<td>474</td>
<td>474</td>
<td>474</td>
</tr>
<tr>
<td>Silos direct encapsulation plant</td>
<td>2010</td>
<td>2</td>
<td>560–669</td>
<td>668</td>
<td>1,281</td>
<td>1,324</td>
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<tr>
<td>Ponds solid treatment plant technical underpinning project 7</td>
<td>2010</td>
<td>2</td>
<td>29</td>
<td>29</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total (excluding highly active liquor storage tanks)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
## Variance against delivery date

<table>
<thead>
<tr>
<th>Variance against original upper estimate (e)—(a)</th>
<th>Variance against upper estimate at initiation</th>
<th>Variance against performance plan estimated cost (e)—(b)</th>
<th>Total spend to March 2012 (£m)</th>
<th>Total spend to September 2013 (£m)</th>
<th>Planned delivery date when initiated</th>
<th>Planned delivery date in 2011 performance plan</th>
<th>Estimated delivery date as at March 2012 (months)</th>
<th>Estimated delivery date as at September 2013 (months)</th>
<th>Variance against delivery date when initiated (j)—(g)</th>
<th>Variance against delivery date in 2011 performance plan (j)—(h)</th>
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<tbody>
<tr>
<td>(£m)</td>
<td>(%)</td>
<td>(£m)</td>
<td>December 2012</td>
<td>November 2016</td>
<td>November 2016</td>
<td>January 2018</td>
<td>61</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>101</td>
<td>44</td>
<td>103</td>
<td>132</td>
<td>186</td>
<td>2012</td>
<td>2013</td>
<td>2012</td>
<td>2013</td>
<td>(j)—(g)</td>
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<tr>
<td>255</td>
<td>52</td>
<td>408</td>
<td>117</td>
<td>186</td>
<td>October 2019</td>
<td>August 2017</td>
<td>August 2017</td>
<td>January 2023</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>61</td>
<td>-85</td>
<td>43</td>
<td>60</td>
<td>January 2019</td>
<td>October 2017</td>
<td>October 2017</td>
<td>October 2018</td>
<td>-3</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>32</td>
<td>73</td>
<td>21</td>
<td>39</td>
<td>October 2011</td>
<td>May 2017</td>
<td>February 2017</td>
<td>February 2018</td>
<td>9</td>
<td></td>
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<tr>
<td>391</td>
<td>471</td>
<td>0</td>
<td>39</td>
<td>44</td>
<td>March 2013</td>
<td>March 2018</td>
<td>Cancelled</td>
<td>Cancelled</td>
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<td>0</td>
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<tr>
<td>655</td>
<td>98</td>
<td>656</td>
<td>207</td>
<td>315</td>
<td>November 2018</td>
<td>June 2017</td>
<td>October 2017</td>
<td>August 2020</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>-8</td>
<td>-28</td>
<td>-8</td>
<td>3</td>
<td>11</td>
<td>March 2015</td>
<td>March 2015</td>
<td>March 2015</td>
<td>March 2015</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**NOTES**

1. The cost estimates at initiation are the ranges based on historic data used in the business cases for each project.
2. The costs in this table are 'P50' estimates (meaning there is a 50 per cent probability of the projects being delivered either under or over budget), which include allowances for risk and uncertainty.
3. Cost and schedule estimates are provisional due to high levels of uncertainty.
4. Figures quoted for the 2013 update are in 2013 money values, original estimates have not been escalated from the 2012 position, so the delta is slightly overstated
5. The Authority took a strategic decision to cancel the highly active storage tanks project in May 2012.
6. Five of these projects were initiated before Nuclear Management Partners Limited was appointed.
7. The Ponds solid treatment plant technical underpinning project is no longer classed as a major project. Main scope moved to BEP, rapid fuel drying and containerisation studies.
## Projects in the Construction Phase

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Date passed design gate</th>
<th>(a) Estimated cost at design gate (£m)</th>
<th>(b) Estimated cost at performance plan May 2011 (£m)</th>
<th>(c) Estimated cost as at March 2012 (£m)</th>
<th>(d) Estimated cost as at September 2013 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Sludge Treatment Plant</td>
<td>Construct storage tanks to hold radioactive sludge and a building to house them with settling plant, utilities and ventilation equipment</td>
<td>May 2006¹</td>
<td>32</td>
<td>63</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Buffer Sludge packaging plant¹</td>
<td>Construct storage capability for radioactive sludge until it can be processed into a suitable waste form for final disposal</td>
<td>September 2006¹</td>
<td>108</td>
<td>202</td>
<td>234</td>
<td>240</td>
</tr>
<tr>
<td>Encapsulated product store²</td>
<td>Construct new store for intermediate-level radioactive waste from reprocessing and future hazard reduction programmes</td>
<td>October 2006¹</td>
<td>94</td>
<td>103</td>
<td>103</td>
<td>105</td>
</tr>
<tr>
<td>Magnox swarf storage silos retrievals</td>
<td>Construct equipment and systems that can safely remove radioactive waste from a storage silo</td>
<td>March 2007¹</td>
<td>243</td>
<td>421</td>
<td>387</td>
<td>729</td>
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<tr>
<td>Separation area ventilation</td>
<td>Construct a 120 metre high chimney with associated plant room monitoring room and substation</td>
<td>August 2008¹</td>
<td>144</td>
<td>120</td>
<td>138</td>
<td>224</td>
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<tr>
<td>Evaporator D</td>
<td>Construct a new evaporator to reduce the volume of highly active liquors (a by-product of reprocessing)</td>
<td>April 2009</td>
<td>397</td>
<td>398</td>
<td>641</td>
<td>660</td>
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<tr>
<td>Box transfer facility</td>
<td>Construct a tunnel and associated mechanical devices to transport processed waste contained inside of 3m³ boxes</td>
<td>December 2011</td>
<td>148</td>
<td>158</td>
<td>193</td>
<td>189</td>
</tr>
</tbody>
</table>

**Total**                                                                                   | 1,166                          | 1,465                               | 1,759                                               | 2,210                                  |
### Variance against design gate estimate

<table>
<thead>
<tr>
<th>Variance against design gate estimate (e)—(a)</th>
<th>Variance against the performance plan estimated cost (e)—(b)</th>
<th>Total spend to March 2012 (£m)</th>
<th>Total spend to September 2013 (£m)</th>
<th>Planned delivery date at design gate</th>
<th>Estimated delivery date as at March 2012</th>
<th>Estimated delivery date as at September 2013</th>
<th>Variance against delivery date in 2011 performance plan (j)—(g)</th>
<th>Variance against delivery date at design gate (j)—(h)</th>
<th>(g)</th>
<th>(h)</th>
<th>(i)</th>
<th>(j)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(£m)</td>
<td>(%)</td>
<td>(£m)</td>
<td>(£m)</td>
<td></td>
<td></td>
<td></td>
<td>(months)</td>
<td>(months)</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>31</td>
<td>97</td>
<td>0</td>
<td>63</td>
<td>March 2008</td>
<td>January 2012</td>
<td>Delivered March 2012</td>
<td>Delivered March 2012</td>
<td>48</td>
<td>2</td>
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<tr>
<td>132</td>
<td>122</td>
<td>38</td>
<td>172</td>
<td>June 2008</td>
<td>October 2013</td>
<td>March 2014</td>
<td>March 2014</td>
<td>69</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>12</td>
<td>2</td>
<td>99</td>
<td>September 2010</td>
<td>August 2012</td>
<td>November 2012</td>
<td>April 2014</td>
<td>43</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>486</td>
<td>200</td>
<td>308</td>
<td>167</td>
<td>April 2015</td>
<td>June 2023</td>
<td>June 2023</td>
<td>Jan 2023</td>
<td>93</td>
<td>-5</td>
<td></td>
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<td>80</td>
<td>56</td>
<td>104</td>
<td>106</td>
<td>August 2011</td>
<td>January 2013</td>
<td>November 2013</td>
<td>December 2016</td>
<td>64</td>
<td>47</td>
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<td>263</td>
<td>66</td>
<td>262</td>
<td>375</td>
<td>July 2014</td>
<td>May 2014</td>
<td>December 2015</td>
<td>March 2016</td>
<td>20</td>
<td>22</td>
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<td>41</td>
<td>28</td>
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<td>40</td>
<td>November 2018</td>
<td>January 2017</td>
<td>March 2017</td>
<td>February 2019</td>
<td>3</td>
<td>25</td>
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<td>1,044</td>
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<td>745</td>
<td>1,022</td>
<td>1,363</td>
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<td>340</td>
<td>116</td>
<td></td>
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</table>

**NOTES:**

1. The costs in this table are "P50" estimates that include allowances for risk and uncertainty. This means there is a 50% probability of the projects being delivered either under or over budget.

2. Figures quoted for the 2013 update are in 2013 money values, original estimates have not been escalated from the 2012 position so the delta is slightly overstated.

3. Five of these projects passed the design gate before the appointment of Nuclear Management Partners Limited.
Supplementary written evidence from the Nuclear Decommissioning Authority

The Decision to Extend

Performance at Sellafield on projects and operations and, just as crucially, in the development of capabilities required to deliver this complex mission in coming years has not yet met our expectations.

The first term of our contract with Nuclear Management Partners (NMP) has not delivered all of the value that was sought or expected. Remediating the Legacy Ponds and Silos (LP&S) and improving the capability and capacity of the workforce to deliver is taking some time to address.

The main reasons behind the costs of the projects rising is a combination of inherent uncertainty caused by an inventory that is not fully characterised, the age of many of the facilities and the standards to which they were constructed, the uncertainty encountered when pushing boundaries associated with both technology and operations and the logistical and organisational complexity of working at the Sellafield Site.

However in circumstances that are technically and organisationally complex, progress has been made and I concluded that the best way to progress at this time is to extend the contract and allow NMP and Sellafield Limited (SL) to build on experience gained and to move forwards with a strong focus on capability improvement in SL as well as near term delivery of projects and operations.

Fee for Performance

During the hearing it was implied that NMP had been paid £230 million fee for little or no return, which is not the case. Progress has been made and value realised in several areas as we discussed, not least in the generation of efficiencies. NMP are set challenging and stretching plans by the Nuclear Decommissioning Authority (NDA) and around 90% (approx 70% by value) have been completed in the first contract term. Had time allowed I would have liked the opportunity to discuss at the hearing the NAO’s report “Assurance of reported savings at Sellafield”, in which the NAO concludes that NMP will realise £650 million of efficiencies in the first contract period.

The generation of efficiency against an agreed plan is fundamental to the first phase of the contract, indeed NMP earn fee by generating a fee pool from efficiencies that is then released on delivery of specific milestones. Without efficiencies there would be no fee pool and substantially less fee earned by SL and passed on to NMP. Stepping back from the detail, in round numbers the total fee paid to NMP is approximately a third of the efficiency savings generated.

Planned Increase in Expenditure

I do not accept that taxpayers money is being thrown “like confetti”. Whilst the numbers are undoubtedly large, the £200 million/year increase in funding for SL reflects the Governments welcome resolve to tackle this nationally significant non-discretionary and very difficult problem. It is planned expenditure, identified in advance and agreed during successive spending rounds as required to build enabling facilities for LP&S decommissioning. I believe that the Government’s scrutiny and approval of this additional funding reflects well on the NDA’s ability to articulate coherent forward plans and funding requirements, to provide reassurance that the work is necessary and that delivery plans are sufficiently mature.

The KPMG Report

On a personal level I am deeply uncomfortable with the implication at the hearing that we deliberately withheld the KPMG report. Under my leadership the NDA strives to be a very open and straight forward organisation, indeed the NAO have previously recognised publically that our approach to engaging with them on complex issues, including bad news, has been exemplary.

The existence of the report was known by Sellafield Ltd, Nuclear Management Partners, Regulators and Trade Unions, all of whom were interviewed as part of its preparation. It was discussed at our Board and Board Audit Committee, the latter of which is routinely attended by the NAO and was referred to in an article in the Independent in July. While the report was not produced with the specific intention of it being made public, its existence was far from secret and we work on the basis that such documents (subject to appropriate redaction) are likely to be made publicly available.

We were proactive in asking what kind of information PAC and NAO needed prior to the hearing and this resulted in our providing updated project data. The NAO’s efficiency review was carried out in our normal open manner and the resulting report presented to the committee. The contract decision was not relevant to the NAO’s efficiency review, nor was it the focus of the hearing as stated on our invitation. No substantive enquiries were made by PAC or NAO regarding the contract extension prior to the hearing.

Specifically, the purpose of the KPMG report was to provide an independent review of performance to help with our deliberations. It did not advise us on contract renewal. It provides facts regarding performance and opinion as to whether the observed facts, in aggregation, indicate that our desired outcomes and attributes have been achieved.
Despite the length and sensitivity of the report, and the need to formalise KPMG’s agreement to release it, we managed to redact and release it within the FOI time limit and before the PAC hearing. The cost of KPMG’s Performance Review Report was £250k (in response to Q93 and Q168).

Turning now to specific questions raised in the hearing, I provide additional information.

**Contracts Changes (Q65)**

The contract was rolled over in the same form as it exists in the final year of the initial term, which includes the changes we made to the Legacy Ponds & Silos (LP&S) Alternative Pricing Mechanism. That modification to the contract was appropriate in order to explicitly and primarily incentivise schedule ahead of cost in LP&S scope. The cost incentive across the rest of the site remains in place. There also remains a cost incentive in LP&S scope but fee opportunity is dominated by schedule adherence in that area.

Regarding the costs of expatriate executives, we are considering moving in the next term to an arrangement similar to that used in the USA, whereby we pay a capped fee for the provision of Executives, leaving NMP to sort out the split between salary, bonus and expenses. Discussions with NMP are ongoing on this matter.

A review carried out by Aon Hewitt benchmarked current SL Executive salaries against companies from within the UK and internationally and concluded that we are currently paying around median remuneration package rates. We will continue to pay at that level in order to attract and retain the right people.

**Expectations for the next contract period (Q67 and Q143) (Ref. Annex 1)**

The committee asked for a summary of our expectations and requirements for the next contract period. These are twofold—requirements for capability improvement and expectations for near term project and operational performance.

Renewed requirements for capability improvements have been developed by the NDA-led Sellafield Performance Group (SPG) which was established in 2011 to consider and address the key issues and constraints that negatively impact the performance of the site and thus its ability to progress hazard reduction tasks.

Working jointly, NDA, NMP and SL have identified and are working on eight improvement areas. These have formed the basis of the Sellafield Excellence Plan and senior staff from NDA and SL meet regularly to ensure progress is being made.

The eight themes are listed below, further details and metrics are included in Annex 1

1. Organisation and Leadership.
2. Commercial improvements.
3. Resourcing and training.
4. Programme and Project management.
6. Site Integration.
7. Site Logistics.

Expectations for project and operational performance are set out in our Operating Plan and formally defined and confirmed between NDA and SL through an annual process. By extending the contract into the next period we haven’t in any way reduced our ability to set targets annually or for multiple years, these are set in an ongoing annual process. Next year this will be informed by an updated Performance Plan 14 which is currently being developed by SL and scrutinised by NDA.

At the hearing, with reference to a letter from C.O.R.E. to PAC, we were criticised for setting operational targets that have proved hard to meet. It is understood by NDA, SL and NMP that the targets we set are ambitious but achievable, if the site misses targets this does not imply that they were the wrong targets. Targets attract fee, to hit them all would imply they had been too easy and would cost us and the taxpayer more in fee. C.O.R.E is to correct to point out that operational performance has historically been very volatile and that is part of the inherited challenge that we and NMP contend with.

**Annual cost of storing Pu (Q156)**

The actual costs to the UK taxpayer of storing plutonium, both historically and for the future, are not disclosed in detail as they relate in part to commercial contracts with third parties. However we can provide an estimate, and on that basis state that the annual direct costs of storing plutonium at Sellafield are approximately £40m.

**Affiliates Trading in 2012–13 (Q165—Q171)**

The Parent Companies of NMP are big players in the nuclear sector; their presence in our supply chain is to be expected and desired since to exclude them would result in a loss of important capability and competition
from the marketplace. Therefore we do not preclude affiliate companies from bidding for Tier 2, 3 or 4 work and we undertake assurance of contracts let at Sellafield to affiliate companies.

Spend with affiliates sits at around 5% to 6% of total SL supply chain spend. In 2011–2012 the NAO observed that of £986 million of supply chain spend, £57.1 million (ie 5.7%) was spent with affiliate companies. In 2012–13 this was £49.8 million of £1.02 billion ie 4.9%. Up to September of FY 2013–14 this year is £27.5 million of £503 million ie 5.4%.

**Benchmarking (Q118 to Q126) (Ref. Annex 2)**

Our international benchmarking activity is more extensive than that which I articulated in response to questions from Mr Barclay at the committee. Details provided in Annex 2 set out the benchmarking performed on all initiated projects and 2nd contract term Major Projects, (27 in total), describes the development and application of our Benchmarking Tool and Cost Model and states that this work is being expanded into Operational and Asset Care scope.

As well as detailed technical benchmarking, we collaborate and share information internationally through many routes and forums as described. Many come to us to gain insight from our experience of decommissioning and all that it entails. Our challenge is viewed as the most complex, and we are seen as a nation that is getting to grips with its nuclear legacy. Our strategy is considered as best in class and our model, in which NDA leads on the implementation of that strategy with only 220 staff is of great interest.

Finally, although we have concluded that the best way to progress at this time is to extend the contract and allow NMP and SL to build on experience gained and to move forwards with a strong focus on capability improvement in SL as well as near term delivery of projects and operations, I reiterate that the contract extension has not foreclosed any of the options we considered throughout our review. We are still able to terminate for convenience at any point in time, providing NMP with 12 months notice. We could then move to re-engage with the market to find a new PBO, or to dispense with the private sector PBO and take the parental responsibilities within NDA.

In the coming years, our ongoing commercial relationship with NMP and SL is central to success. Whilst there are risks associated with the public scrutiny of the details of that relationship, I understand and support your interest and to that end, if the committee wishes, I would make myself available to attend alongside NMP and SL early in December.

I welcome continued interest from Parliament in the challenging and non-discretionary work of the Nuclear Decommissioning Authority (NDA) and share your desire to get the very best value from the large sums of public money spent across the NDA estate.

*John Clarke*
*Chief Executive*
*12 November 2013*
### Sellafield Excellence Plan

The Excellence Plan consists of eight focus areas with underpinning work streams which are listed below.

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Workstreams</th>
<th>Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Organisation &amp; Leadership</strong></td>
<td>1.1 Align NDA priorities in SL strategy &amp; subsequent governance and oversight arrangements</td>
<td>Core messaging and strategy brochure, Executive sign off for org changes, Pulse check employee survey, Journey to Excellence feedback, stakeholder survey, Formal handshake with Customer in regard to priorities against the SL detailed strategy.</td>
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<td></td>
<td>1.2 Independently review, evaluate and address historical leadership gaps and development needs, agreed against leadership standards and competencies.</td>
<td>All currently known leaders gaps and development needs, agreed against leadership standards and competencies.</td>
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<td>1.3 Raise leadership standards so that expectations of behavior and performance are understood, communicated and reinforced.</td>
<td>Performance ratings (red, amber, green, gold) reflect business performance.</td>
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<td>1.4 Establish a single programme of enabling site wide improvement projects.</td>
<td>Excellence Plan SLP’s implemented and 1st programme board.</td>
</tr>
<tr>
<td><strong>2. Commercial Improvements</strong></td>
<td>2.1 An accurate Master Procurement Plan is in place, actively managed, visible, reliable and valuable.</td>
<td>Master Procurement Plan established and published by agreed date (1 August 2014) and annual updates thereafter, Accuracy of data (projects included/dates).</td>
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<td></td>
<td>2.2 Fit for purpose commercial directorate with capability and capacity to deliver the Sellafield 4business requirements (including alternate service models).</td>
<td>12 month rolling forecast of resource requirements. Critical Commercial Vacancies are filled with the right candidates within the required timeframes.</td>
</tr>
<tr>
<td></td>
<td>2.3 Improve Project Governance arrangements aligned to NDA for Major Projects.</td>
<td>Number of Business Cases/Acquisition Strategies/Subcontract Strategies recycled from IRP/ERP.</td>
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<td>2.4 Strengthened Post Contract Management arrangements.</td>
<td>Individuals in role(s). Improved Value for Money measured against LPT14 baseline.</td>
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<td>2.5 Develop and implement best industry practice integrated client service contracts for Major Projects Delivery with effective integration between the Commercial, Project and Engineering functions.</td>
<td>Improved cost and schedule performance versus previous period. Improved attainment of LTP14 milestones versus prior period.</td>
</tr>
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<td>2.6 Supply Chain Engagement.</td>
<td>Number of expression of interests, PQQ responses &amp;/or ITT Submissions.</td>
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<td>Increased interest and participation in major SL competitions.</td>
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<td>Focus Area</td>
<td>Workstreams</td>
<td>Metrics</td>
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<td>-------------------</td>
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<tr>
<td><strong>3. Resourcing &amp;</strong></td>
<td><strong>3.1</strong></td>
<td>Review and benchmark the current organisational structure, roles and staffing; implement agreed changes</td>
</tr>
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<td><strong>Training</strong></td>
<td></td>
<td>Initial generic metrics for external benchmarking will include: layers and spans of control; accuracy of organisational charts; compliance with Sellafield Ltd Management System policies on Organisational Design; and current R2A2s (Roles, Responsibilities, Accountabilities and Authority) Further SL metrics will be developed and overseen by the Safety &amp; Assurance Governance Committee, including: line of sight to delivery units; alignment of core functions (functional vs. projectised resources); and SQEP status of staff.</td>
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<td><strong>3.2</strong></td>
<td>Improve Resourcing Processes Key metrics for resourcing:Staff numbers/skills vs. ASL. % of critical vacancy lists filled (Decom) as shown in milestones. Decom mobility: achievement vs. target list of skills required Site-wide mobility: wider measures of redeployment to be developed Planned vs. actual man-hours—targets to be developed The Applicant Tracking System: effectiveness and speed of recruitment. Annual analysis of attrition (resignations)—skills/origin/destination</td>
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<td><strong>3.3</strong></td>
<td>Improve Employee Knowledge and Skills through Technical Training in order to ensure our people have the necessary fundamental knowledge to safely deliver Deployment of training professionals from the Persides contract—evidence of completion of development of new training for value added activities Systematically Produced Training Materials—burn down curve of completion of SAT development schedule for the year—goal to achieve the schedule Evidence of completion of year 2 craft apprentice programme in 2014—completion of training program content for year 2 craft apprentices Overdue Mandatory Training Events—number overdue as % of total training events—goal &lt;0.5%—acts as evidence of control of qualification</td>
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### Focus Area  Workstreams  Metrics

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<tr>
<th>Focus Area</th>
<th>Workstreams</th>
<th>Metrics</th>
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<tbody>
<tr>
<td>4. Programme &amp; Project</td>
<td>4.1 Develop &amp; Implement a pilot process that enables early review and</td>
<td>Agreed Project &amp; Programme Strategic Outline Business Cases (SOBC) submitted to NDA on agreed timescales.</td>
</tr>
<tr>
<td>Management</td>
<td>endorsement of technology and delivery strategies on SL Projects and</td>
<td>SOBC’s enable NDA Board to endorse Direction of Travel or Provide clear direction in a timely manner prior to Sanction request at Initiate Project Delivery Gate.</td>
</tr>
<tr>
<td>(Including Key Programmes,</td>
<td>Programmes (via Strategic Outline Business Cases)</td>
<td>Project Estimating Risk and Uncertainty Ranges align with HMRC Green Book guidance with consistent Contingency Tracking &amp; Monitoring in place across the Major Projects Group</td>
</tr>
<tr>
<td>PEIP &amp; PDIP Elements of Work)</td>
<td>4.2 To ensure that Risk &amp; Contingency Management at Sellafield aligns with HMRC Greenbook &amp; meets stakeholder expectations</td>
<td>Reduction in number of associated SPER findings related to Risk and Contingency Management and Estimation.</td>
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<td>4.3 Improved Project Control arrangements consistently and effectively</td>
<td>MPR implemented on schedule across all projects requiring an MPR and meet the required Standards</td>
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<td>applied to Major Projects at Sellafield. Programme Reporting requirements</td>
<td>Number/Percentage of Projects with Part 2 &amp; 3 Improvements in place</td>
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<td>established and implemented in agreed Programme Areas.</td>
<td>Number of Programmes implementing standard Programme Reporting.</td>
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<td>4.4 To improve development and execution of Integrated Project Engineering</td>
<td>Modular training scheme in place covering standard project controls arrangements and rollout to project controls personnel is ongoing</td>
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<td>and Commercial Strategies which are aligned with Project drivers and support improved time, cost and quality Project performance.</td>
<td>Assessment reports and improvement plans to be shared with NDA. Independent Capability</td>
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<td>4.5 To continue to enhance SL’s Programme Management capabilities through</td>
<td>Maturity measures to form the basis of the baseline assessment and improvement measure scores</td>
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<tr>
<td></td>
<td>evaluation of the current level of maturity, development &amp; implementation of</td>
<td>Assessment reports and improvement plans to be shared with NDA. Independent Capability</td>
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<td>targeted improvement actions and assessment of progress &amp; achievements</td>
<td>Maturity measures to form the basis of the baseline assessment and improvement measure scores</td>
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<td>against agreed improvement targets.</td>
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<td>Focus Area</td>
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<tr>
<td>5. Nuclear Safety &amp; Operations (Including CAP, IWM &amp; Emergency Management)</td>
<td>5.1 Implement Standard, industry best operational practices throughout Sellafield Ltd’s facilities in regard to Disciplined Operations and Human Performance</td>
<td>standard for instruction use issued and embedded in line with rollout programme (5.1.1) and red-penning process in place and meeting tum-around targets in support of instruction use. pre/post job review standard issued and in use (5.1.2), contributing to improved right first time operations/reduction in events control and supervision manual issued and implemented (5.1.3) in support of Org and leadership work stream.</td>
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<td></td>
<td>5.2 Establish Performance improvement and the Corrective Action Programme (CAP) as business-as-usual</td>
<td>graded approach to investigations implemented (5.2.2–5.2.4) resulting in improved quality and timeliness of investigations increase in % of self-identified issues and reduction in repeat events in line with targets trending tool in place, allowing targeted corrective actions.</td>
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<td>5.3 Fully implement and embed IWM in line with Sellafield strategic priorities</td>
<td>IWM implemented and running to specified criteria in line with roll out programme for priority areas (5.3.1–5.3.6) Increase in work completion rate and resource utilisation in line with target due to effective implementation of IWM and supporting.</td>
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<td>5.4 Implement a cohesive drill and exercise programme at the site and facility level that effectively and efficiently tests the emergency preparedness and response capability across the Sellafield site</td>
<td>Emergency drill/exercise programme schedule and success criteria are met (5.4.3) performance at level 1 exercises meets expected standards (5.4.3 and 5.4.4) SL’s EM arrangements and standards are fully defined and documented (5.4.1 and 5.4.2).</td>
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<tr>
<td>Focus Area</td>
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</table>
| 6. Site Integration | 6.1 Implement enterprise-wide corporate planning/programme management across SL | Near Term: Site Integration Office (SIO) core team established (Sept 13)  
Site Integration Office R2A2s in place (Dec 13)  
Audit of SIO performance against objectives and R2A2s (July 14)  
Business unit strategies aligned to SL Strategy (Apr 14)  
Individual PMAs aligned to business unit and site strategies (50% SL by April 14)  
Single executive business performance reporting tool implemented (Oct 13)  
Enterprise-wide risks, issues and opportunities (RIO) collated and prioritised (Nov 13)  
Executive Management Plans addressing the top 5 RIO in place (Feb 14)  
Key business data for executive decision making collated (Oct 13)  
Executive decision calendar implemented as business-as-usual (Dec 13)  
Review of current SL enterprise-wide business planning process (Dec 13)  
Long Term: Annual review of effectiveness of SIO tools  
Implementation of enterprise-wide programme management process (Jun 14)  
Alignment of principles/process with organisational design review (Dec 14)  
Establish a single point-of-contact department for business reporting (Mar 15)  
Automation of data capture and report production (Mar 16) |
### Focus Area: Site Logistics

<table>
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<th>Workstreams</th>
<th>Metrics</th>
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</table>
| 7.1 Implement Inbound Logistics an Warehouse Programme incorporating:  
  • Warehousing and transportation of materials,  
  • Co-ordination of road and rail movements,  
  • Co-ordination of specialise equipment usage | Gross number of deliveries to Sellafield (target reduction)  
  Ratio of transferable to non transferable deliveries (target increase)  
  Value of stocked inventory (target reduction)  
  Full Track Load (FTL) equivalent transferred to rail |
| 7.2 Movement of people and support facilities to deliver the site plan | Utilisation of current IWM standard metrics  
  People volumes through monitored turnstiles (Separation and island sites) Delivery quantities measured through different control points (HSA, Separation and island sites) |
| 7.3 Provision of accommodation and site support facilities including people moves through different boundaries eg Separation area, HSA and island site access points | Changeroom locker capacity v usage (SL and supply chain) Lay down area gross capacity and utilisation |
| 7.4 Re-design of organisation and service provision | No current metrics agreed |
| 7.5 Preparation and Delivery of a Site Logistics Plan | % performance v Site Logistics Plan |

### Focus Area: Engineering (Asset Care, including Maintenance)

<table>
<thead>
<tr>
<th>Workstreams</th>
<th>Metrics</th>
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</table>
| 8.1 Asset Management- Make risk informed investment decisions to optimise critical assets (eg steam, electrical, water, chemical distribution systems) life cycle costs in order to deliver the site mission safely and securely | 8.1.1 AMP produced and approved by DHoE for each asset on top 30 Critical Asset Dashboard  
  8.1.2 60% of the following year’s delivery of AC and AE is milestones by December  
  8.1.3 Design Authority transferred from DAreps to OUEng Managers in all OUs by December 2014  
  8.1.4 Tornado diagrams produced for Ops Division, Decom Division and for Site  
  8.1.5 Wastwater phase 1 pipe replacement complete and line energised  
  8.1.6 PB refurbishment complete  
  8.1.7 New Substation 6 and 7 installed and energised  
  8.1.8 THORP cooling tower cross over complete  
  8.1.9 PMF North vent airlock completed and active  
  8.1.10 Hydrogen purge suppression complete  
  8.1.11 Cooling water monitor AIS complete  
  8.1.12 FGMSP 60 te crane returned to service |
| 8.2 Maintenance—Develop arrangements to optimise physical asset condition, availability, performance and quality in line with business requirements. | 8.2.1 Plant Engineering, Maintenance and IWM orgs populated to 90%  
  8.2.2 20% of SL maintenance craft (effort/cost) moved onto Task work by end of FY 2016/17.  
  8.2.3 Phase 1 Technical Basis of Maintenance (TBoM’s) implemented by OUs as per 2013/14 engineering milestone programmes |
BENCHMARKING

The last ten months has seen a significant effort by NDA, supported by the supply chain, to further develop the Benchmarking Tool and Cost Model previously developed for the Dounreay competition and the Magnox Optimised Decommissioning Programme. These tools are now being actively deployed to support PP14 Assurance at Sellafield.

Benchmarking means different things to different audiences. For the avoidance of doubt and to manage expectations, this immediate phase of work uses structured comparisons from worldwide nuclear facilities, (predominantly UK and US projects at this stage), to help define and implement best practice concerning delivery of our Major Projects. Outputs include a combination of scope, schedule and cost recommendations to inform dialogue with Sellafield as part of forthcoming PP14 Assurance work. The overarching purpose of the work undertaken is for demonstrable improved confidence in Sellafield’s PP14 dates and costs for the Major Projects which collectively comprise a significant percentage of NDA’s overall annual spends. Whilst the initial focus has been for ALL in-flight and 2nd contract term Major Projects, (a total of 27 projects—see list below), we are also about to expand this work into Operational and Asset Care areas.

Following completion of this initial benchmarking work for projects, we have now reached the business end of this work whereby outputs/recommendations will be used to inform PP14 Assurance activities. Dashboard summaries focused on schedule and cost data have already been shared with SL key players and we are now commencing a series of formal engagements with SL to utilise outputs to inform PP14 Assurance work as part of the overall acceptance process. The first output is being piloted for the SMF project. This will involve NDA challenging costs and schedules and holding SL to account using worldwide comparators as a basis to deliver improved performance. Based on the outputs that have been delivered to date, we are confident that this will help drive improved discipline within the SLCs and subsequent improved delivery confidence levels for our major projects.

We have undertaken staff exchanges with the French waste management organisations and have specifically benchmarked the decommissioning of our respective graphite reactors. We are also actively engaged with organisations from Canada, Sweden, Switzerland, China and Taiwan, where they have come to us to gain an insight into our experience of decommissioning and all that it entails as it is viewed as the most complex, and that we are a nation that is getting to grips with its nuclear legacy. Our strategy is seen as best in class and the model that sees NDA leading on the implementation of that strategy with only 220 staff is of great interest.

One of our most active relationships is with the United States Department of Energy and their Office of Environmental Management and Office of Nuclear Energy covering site clean-up approaches and geological disposal. Here there has been much discussion and sharing of lessons learned in a wide variety of areas such as remote decommissioning technologies, approaches to contracting, security arrangements, vitrification technology, plutonium management, spent fuel management, alpha plant Deplant & Decommissioning and orphan waste disposition to name but a few. There is a regular interchange between subject matter experts which have led to tangible benefits for both sides, including knock-on benefits for the UK supply chain.

We also work with others to identify joint technology development programs which avoid duplication of effort and which build on our respective strengths to better leverage resources.

List of SL Major Projects for which Benchmarking Work has been Complete:
1. Local Sludge Treatment Plant. Direct Import Facility.
2. Box Transfer Utility.
4. Encapsulated Product Store (3).
5. Separation Area Ventilation.
7. Silos Direct Encapsulation Project.
8. SEP Solid Waste Storage Retrievals.
10. Evap D.
11. SPP1 Buffer Store.
12. PFCS Retrievals.
13. BEP (B873).
14. FGMS Export.
15. SIXEP Waste Retrievals.
17. SPP1 Process & Export Facility.
22. Construction of Class II Decommissioning Store.
23. Sellafield Active Discharge Management Project.
24. Slurry Transfer from Buffer to Process & Export.

Further Supplementary written evidence from the Nuclear Decommissioning Authority

I am writing in response to your request for “a note of the key measures that NDA are going to take to decide whether or not to continue or terminate the contract” and the further suggestion that such a note should focus on “the top few, with some clear, measurable objectives”.

Working with my Executive Team, I will continue to monitor Nuclear Management Partners (NMP) and Sellafield Ltd (SL) performance and make regular reports to the NDA Board and Government on progress. These reports will inform future decisions by the NDA Board regarding the continuation or termination of the contract with NMP. Such decisions will be a matter of judgement, informed by a data set that will include both quantitative and qualitative information, but my advice to the Board will not be formulaic and will ultimately come down to a management judgement made in the context of significant uncertainty of the task at Sellafield.

Whilst of course we will continue to make quantitative assessments of project schedule and cost against plans, as well as assessing operational performance, safety performance and savings against targets, the key areas of remediating the legacy ponds and silos and improving the capability and capacity of the workforce will take time to address. Whilst I fully expect to see incremental changes it would in my view be unrealistic to expect the overall metrics in these key areas to change dramatically in the next 12 to 24 months. The impact of NMP’s leadership and capability improvements at Sellafield will take time to show through in output metrics, and indeed can be obscured by the underlying uncertainty and complexity of many of the key programmes on the site.

Therefore a more significant element of my consideration will be the qualitative assessment of how effectively the Sellafield Board and Executive team is driving the enabling activities required to achieve systematic and sustainable improvements in the conduct of the business. I will also want to see evidence that NMP is fully engaged with and supporting SL in driving forward effective interventions in capability improvement and organisational modernisation.

I have previously sent you a summary of the Sellafield Excellence Plan, which sets out eight focus areas underpinned by 31 workstreams and describes the associated quantitative and qualitative metrics. Furthermore, in preparation for commencement of the second contract term in April 2014, we are in the process of refining and agreeing with NMP specific annual targets based on these metrics.

So, in the meantime, and in response to your specific request for the “top few objectives” I would point the Committee towards the following six areas as being the most significant in assisting me in my ongoing judgements regarding continuation or termination:

1. Schedule and cost performance (projects).
2. Operational performance.
4. VFM—savings against targets.
5. Capability Improvement.
   a. Engineering (design, asset care and maintenance)
   b. Commercial (procurement and contract management)
   c. Programme and Project Management
   a. Governance
   b. Leadership and Management
   c. Alignment (with NDA and within NMP/SL)
   d. Socio Economics, Stakeholder and industrial relations

Of course in order to retain and strengthen the option of termination I will continue to maintain and further develop two alternatives to the current PBO, operating under the current model and contract. Those two alternatives being:
(i) To go back to the market to secure a different contract and/or contractor; or,

(ii) To bring the Tier 1 ownership and parenting of the SL enterprise into a subsidiary of NDA and seek
to engage more effectively with the private sector via smaller, more tightly-definable packages of
work at Tier 2.

It is important, however, to be clear I will move away from the current arrangements only if I am confident
that the arrangements I move to will offer a greater probability of success. There are no guaranteed routes to
success at Sellafield and change simply to satisfy the desire for change, whilst giving the welcome appearance
of taking firm action, also risks losing the progress that is being made so far.

I would like to re-iterate that I remain committed to open and transparent engagement and will continue to
make sure that your committee, and the NAO, have access to any and all of the information and rationale I
am using to establish the environment and contractual constructs in which we stand the best chance of making
progress at Sellafield. However, there will be circumstances where, in exercising our duties effectively, it would
not be appropriate to make the same information available to the general public.

Finally, I would welcome a substantive NAO study in 2015 to look broadly at NMP and SL performance,
to consider NDA’s ability to develop and maintain credible alternatives and to evaluate the NDA’s approach to
selecting between these alternatives.

John Clarke
Chief Executive
12 December 2013

Written evidence from Nuclear Management Partners

Further to discussions with the Clerk of the Committee in recent days, it is with regret that I have to decline
the invitation to appear before the Public Accounts Committee on Monday 4th November. Unfortunately, unlike
the other witnesses, we were only given notice of the invitation to attend on the afternoon of Wednesday 30th
October and it has proven impossible to rearrange existing commitments from my base in the United States.

I would like to take this opportunity to stress that we fully respect our accountability to Parliament, and, as
you know, have taken part in very constructive discussions with select committees including yours in the past.
However, we were simply not able to make due arrangements in the short time frame to attend the session,
and provide the level of engagement which the committee warrants.

I therefore felt it important to share some thoughts and information in writing, which I hope will be useful
for your considerations.

First and foremost, please be in no doubt that NMP and our parents are fully aware of our responsibilities
and obligations to our customer, the UK Government and the taxpayer in managing the Sellafield site.

The challenges at Sellafield are unprecedented, with complexities and technical demands far exceeding any
other nuclear site in the world. The range of technologies and processes is the broadest in the industry, all
interwoven in the complex infrastructure of a congested site footprint. Importantly, the uncertainties regarding
historic wastes and aging facilities makes the primary mission of high hazard clean up an extremely challenging
programme with inherent complications in planning and delivery.

Consequently, the first term of our contract has taken us on quite a learning curve, characterised by many
successes but also a number of disappointments and areas for improvement. In the context of this highly
challenging programme, we are proud of the progress that has been made in a number of areas, but equally
recognise that all has not gone to plan and we have learned from this experience. NDA has made it very clear
to NMP where improvements are needed and we are clear on our customer’s requirements going forward. The
priorities for site performance, the enabling requirements for supporting services and the alignment necessary
among ourselves, the NDA, and Government have been emphasised and incorporated.

Some of our customer’s requirements are in direct response to the findings of the PAC earlier in the year
and, over the last nine months, we have been working actively with NDA to address the recommendations of
the report issued in February.

I would like to briefly inform you of progress against each of the recommendations:

**Recommendation 1: Benchmarking**

Sellafield Ltd is working closely with the NDA and the supply chain to improve the robustness of plans to
provide greater certainty and predictability of cost and schedule. We are investing in skills and capability,
particularly in benchmarking, assessment and justification of both schedule and estimating uncertainties.
Recommendation 2: Major Projects

We have strengthened the management teams in Major Projects, Decommissioning and Commercial and Contract Management and implemented further training and skills development across the organisation.

Recommendation 3: Risk Transfer

SL has developed its capability in financial risk management through a combination of external consultant support, recruitment and development of its in-house team. These, together with improvements in SL’s processes and practices, are beginning to deliver improvements in the organisation’s ability to transfer risk away from the tax payer.

Recommendation 4: Efficiency Savings

This is of course covered in the National Audit Office Report being considered by the committee.

Recommendation 5: Value for Money

As the committee will note from the Sellafield Ltd Annual Report and Accounts of 2012–13, that Executive costs and NMP’s fee was reduced from previous years. We have been rationalising the Executive Team and replacing NMP secondees with Sellafield staff through a process of employee development.

Fee is of course directly related to performance and our reduced fee in 2012–13 reflects some of the disappointments I referred to earlier.

Recommendation 6: Regional Economic Development

We set out to play a full and positive role in support of regional economic development. Whilst some of our early ideas have not proven possible to bring to fruition amidst changing economic conditions, we have nevertheless invested more than £22.5 million into the local socio-economic projects over the last five years. This is a significant investment from the private sector that has been honoured irrespective of fee outcomes. Notwithstanding this investment, we understand and regret that there have been disappointments in the local community and we appreciate that we need to do more to satisfy our local stakeholders who, quite rightly, have high expectations of the Parent Body at Sellafield. We understand the need to gain more added value from the taxpayers investment in Sellafield through local economic and supply chain development, and we will deliver this over the coming months and years by implementing a more strategic and inclusive approach.

Finally, I would like the committee to be aware that we have a renewed strategy for Sellafield, underpinned by a well defined plan for the future. That strategy will focus all of Sellafield Ltd’s and NMP’s activity on safe, secure site stewardship, demonstrable progress and driving a return on investment. Our job now is to use our experience of the last five years to reliably deliver our customer’s mission, while further accelerating the pace of change and providing value for money to NDA, Government and the UK tax payer.

We are confident our partners and customers at the NDA can assist the committee on Monday and give the most effective account of those issues which the committee intends to explore. Naturally we will be available to assist the NDA immediately following the session and provide additional details on any specific queries that arise.

It has been our privilege to work with the NDA and Sellafield Limited for the past five years and we look forward to building upon our relationships, through close communication and transparency. I look forward to cooperating fully with this committee and others on any future enquiries and apologies again that we are not able to participate on Monday.

Thomas H. Zarges
Chairman

Written evidence from the Nuclear Management Partners

We write to thank you for the opportunity to appear before the Public Accounts Committee and give evidence on Progress at Sellafield on 4th December 2013, and to provide additional information on points of factual accuracy and clarification.

I would like to offer the following information.

The Respective Roles of NDA, Sellafield Ltd and NMP (Q221& Q273)
— The Nuclear Decommissioning Authority (NDA) owns the sites, competes the site management contracts, sets strategic requirements, approves plans, allocates funding and incentivises delivery through the contract.
— Sellafield Ltd (SL), as the Site Licence Company (SLC), holds and is responsible for the site licence and tactical delivery. It is therefore responsible for safety, all operations and management of the full annual budget provided by NDA (currently in the order of £1.7 billion).

— Nuclear Management Partners (NMP) holds a 100% share of the SLC and provides reachback and management expertise to increase the capability of the SLC, driving improved performance and exercising appropriate governance.

— The regulators (Office of Nuclear Regulation, Environment Agency etc) hold the SLC to account for compliance with the Site Licence and other Environment, Health and Safety related legislation.

— The Management and Operations contract is between NDA and SL. It is this contract that governs the fee payment schedule and milestones.

— Under the Parent Body Agreement between NMP and NDA, NMP draws dividend from SL in accordance with fees earned after tax.

**Clarification of wording in Response to Q228**

In my response to Q228, I referred to “storage conditions that are extraordinarily vulnerable, and in facilities that are well past their designated life”.

I am not suggesting the storage conditions pose an immediate threat to the workforce or the public as long as they are actively managed. However, as noted by the regulator, they do present intolerable risk over time. This is what drives our focus on the safe stewardship and resilience, the rapid retrieval and processing of waste and, ultimately, the decommissioning of these facilities.

**Achievements over the first Contract Period (Q228—Q237)**

There have of course been a number of very significant achievements at Sellafield under the management of NMP. The following list is a sample of just some of the highlights:

— Provided the NDA and Government with a much greater understanding of the true extent of the challenges and risks associated with the site, as detailed in the Sellafield Plan.

— Generated substantial efficiency savings (in the region of £650 million).

— Achieved the site’s best ever industrial safety performance.

— Made the first retrieval in 50 years of spent fuel from a legacy storage pond.

— Completed the first returns of High Active Waste to their countries of origin.

— Implemented a passive safety system in one of the highest risk legacy facilities.

— Completed the first decommissioning of a power producing nuclear reactor.

— Safely completed Europe’s largest asbestos removal project.

— Invested £22.5 million in socio-economic projects and charitable organisations in West Cumbria.

— Doubled the annual intake of apprentices to a record level of 121.

— Increased annual expenditure in the local supply chain by approximately £100 million (50%).

**Changes of Managing Director (Q239—Q242, Q245, Q247)**

As noted by the Committee, Mr Price is our fourth MD in five years, having been appointed in May of this year. However I do not believe that the discussion on 4 December adequately put the reasons behind this in appropriate context.

Our first MD only held the job for around three months, being forced to resign as a direct result of a serious medical condition of a close family member. Our second MD, as stated in the PAC, was forced to retire because of a serious personal medical condition. Whilst we made reference to both on 4 December, I am sure that the Committee will understand why we did not wish to elaborate on their personal circumstances in the full public hearing.

As you would expect, NMP and SL treat the health and wellbeing of our employees very seriously. This should be a high priority for any responsible employer.

These circumstances were unavoidable and unanticipated, but in spite of the exigent circumstances in both cases, we provided overlap and an orderly transition of responsibilities. Also, due to the substantial resources of the parent companies, we immediately assigned leaders of sufficient calibre, with analogous experience and commonality of approach to maintain continuity and momentum.

Our third MD took up the role in February 2011 and remained in post until May 2013. It is important to note, however, that he had been the Deputy MD since the start of the contract in 2008, therefore providing the continuity of leadership that we and the Committee expect.
Award of Sub-contracts to Affiliates (Q244)

I would like to clarify the difference between reachback and sub-contract arrangements.

Reachback is one of the fundamental benefits gained through the Parent Body Organisation (PBO). The arrangements and advantages of reachback were established by the NDA and were included in its Sellafield PBO competition. It is one of the principle means of providing world-class expertise to Sellafield, through the provision of Parent Body employees who bring with them best practices, processes and initiatives to Sellafield. The terms of the PBO contract do not permit NMP or its parent companies to apply any direct profit to the assignment of reachback personnel.

The skills and capabilities offered by reachback are much more targeted, specific and specialist in nature than those addressed through general supply chain contracts. Individuals are carefully selected from their parent organisations to provide specific skills and expertise against well defined site requirements. As stated previously, NMP and the parent companies have no commercial incentive to use reachback in circumstances where supply chain contracts could meet the requirements. Indeed, it could justifiably be argued that there is a disincentive since resources used as reachback would otherwise be deployed on other commercial activities where direct fee earning would apply.

By nature of the early stages of the contract, when NMP was carrying out its initial assessment of the needs of the site, the levels of reachback were of course higher than would be expected as time progressed. As we gained a greater understanding of the true challenges of the site through this process and through real-time issues, predominantly in the major projects area, the need for additional levels of reachback became apparent.

The Committee has, in this and in previous hearings, raised concerns about the level and cost of reachback being deployed at Sellafield. We are sensitive to this and, as Mr Price explained, we are applying governance arrangements and strict time limits for the utilisation of all reachback resources. We have in fact now been able to significantly reduce the numbers of reachback personnel on site.

In the specific case of the response to Q243 and Q244, Mr Price was referring to the reachback provided by one of our parent companies, Areva, on the Vitrification Plant to demonstrate how this resource had recently achieved a significant operational improvement. This was not delivered under a sub-contract arrangement.

[For clarity, the operational targets in the Vitrification Plant have not been met in recent years, however, following the improvements implemented by this reachback resource, we are hopeful of achieving this year’s target.]

With regard to sub-contract trading with affiliates, our contract award process is strictly controlled and audited to ensure a level playing field for the supply chain. SL is legally obliged to conduct its sub-contract competitions in accordance with the Public Contracts Regulations. This regime ensures transparency and equal treatment/opportunity for all bidders.

Underpinning these legal obligations, our procedure for managing conflict of interest also ensures that parent body personnel (including those working inside SL) can exert no influence over procurement decisions. Assurance of the process for awarding contracts is provided by the Commercial Governance Committee, whose role is to ensure that commercial relationships are appropriately controlled and that decision making is fair and transparent.

The Commercial Governance Committee is chaired by a SL senior manager and the internal audit process is delivered by SL personnel.

The 2012–13 Sellafield Ltd Annual Report and Accounts notes that SL traded with URS, Amec and Areva in the ordinary course of business with total purchases during 2013 of £53 million (2012: £54 million). This is a cumulative figure that includes reachback costs, which the Committee noted was £17 million in 2011–12 and £25 million in 2012–13.

Therefore, in 2012–13, SL spent in the order of £29 million on sub-contracts with parent organisations, equivalent to around 3% of the total supply chain spend.

Review of the KPMG Report by NMP and SL (Q250, Q251 & Q256)

For clarity, as Mr Clarke noted at the hearing, neither NMP nor Sellafield Ltd has been provided with an un-redacted version of the KPMG report and Mr Price and I were therefore unaware of some of the details that the Committee raised at the hearing.

NMP and SL’s participation in the KPMG report was limited to the provision of written responses to a relatively small number of questions asked of us, followed by a common teleconference interview with several of our executives for follow-up. NMP and SL were also asked for a check on certain facts, for which we provided a response. Neither NMP nor SL was called upon to comment on KPMG’s methods, conclusions or opinions.
ASSESSING THE TRUE CHALLENGE OF SELLAFIELD (Q258)

Due to the nature of the Sellafield competition and the M&O and PBA contracts, NMP was not given the opportunity to carry out full due diligence on the site conditions.

The competition process did not allow for a visit or inspection prior to share transfer on 24 November 2008. We were limited to reviewing documents provided by the NDA. We could request other documents when we were prescient enough to ask for them. Consequently, asset conditions and site performance characteristics could not be ascertained until mobilisation to the site was well under way.

Early after arrival we formed a comprehensive review team comprising experts from our parent companies, along with experienced SL employees, to conduct first hand, in-depth reviews and assessments of site conditions. This team identified over 4,700 conditions or gaps in need of attention. We utilised this to shape and form an Integrated Change Programme to address site level issues in a systematic and prioritised way.

Following this initial review and further Peer Reviews associated with our membership of WANO (World Association of Nuclear Operations), we embarked on a three-pronged approach to address immediate, near and long term needs.

However, due to the scale and complexity of the site and the sheer magnitude of the improvements, we are still driving this programme forward and finding further issues that we are tackling on an ongoing basis.

EVAPORATOR D PROJECT (Q260 & Q261)

As I indicated in the hearing, the start of the Evaporator D project pre-dated NMP’s arrival at Sellafield, with major contracts already having been placed before share transfer.

In 2009, the Evaporator D project was sanctioned funding of £397 million by DECC and was to be ready for active commissioning in July 2014. By 2011, however, it was clear that progress on the project was not consistent with the agreed estimate and schedule and in May 2012, the project completed a comprehensive review. This review indicated the sanctioned funds would be breached and concluded that the funding would need to be increased to £641 million (including standard levels of project contingency funding) and the schedule for completion of the project would now be February 2016.

The two fundamental issues that had the main detrimental effects on the project were:

— Overly complex seismic design leading to increased material costs and construction complications.
— Supply chain quality issues ranging from basic materials not meeting specification to manufacturing flaws.

Additionally, contractor and site reporting was inaccurate and project change tracking and predictive performance methodologies were found to be inadequate for a programme of this complexity. This compelled a complete bottom-up, detailed re-programming of the project.

Consequently, we now have a thorough understanding of the issues that needed correction and we have taken rapid and decisive steps to address them. This has included a newly constituted project delivery directorate, under the leadership of a very senior Director of Major Projects with more than 30 years’ experience in the most complex project management environments.

Consequently, performance on this project has improved over the past year. We have successfully shipped the final 300 Te module from Ellesmere Port to the site by barge. This was the last of 11 modules for the project and their successful safe delivery and installation into the plant represents a significant achievement and reduction of risk for the project. Since the last PAC review, the project has also completed the plant design and bulk procurement activities, with the last major fabrications being delivered to site in December. Again, this represents a significant reduction in risk to the project cost and schedule.

ATROPHY OF PROJECT CAPABILITY (Q263)

BNFL had a strong project management capability, as did the supply chain, through the 1980s and the early 1990s while building and commissioning a wide range of effluent treatment plants and the Thermal Oxide Reprocessing Plant (THORP). While there have been a number of individual projects delivered on the site since then, they have not been of an equivalent level in terms of complexity or intensity. To complicate matters, BNFL sold its project services division prior to share transfer.

We are now rebuilding the engineering and project management capability with contemporary practices and tools and full integration and enhancement of skills in the supply chain.

MINIMUM PERFORMANCE STANDARDS (Q284 & Q285)

There are 14 Minimum Performance Categories. NMP has met, or is currently forecasting to meet, all of these by 31 March 2014.
The original minimum performance standard for site-wide savings was £796 million over the initial period of the parent body agreement (from 2009 to 2014) at 2012 prices. On a like for like basis, the current forecast is £652 million.

However, NDA is looking to focus on the incentivisation of progress on the ground rather than cost efficiency in legacy ponds and silos. Therefore, the legacy ponds and silos were removed from the minimum performance standard assessment from April 2012. Removal of legacy ponds and silos from the minimum performance standard reduces target savings to £612 million at 2012 prices (versus the latest forecast of £665 million against the revised basis).

Therefore, the current forecast savings exceed the revised target.

These figures differ from those reported by NAO, because SL and NMP maintain that the legacy ponds and silos were removed from the efficiency target from April 2012, rather than December 2012.

**Clarification on Reachback and Secondees (Q320—Q323)**

There is a distinction between reachback personnel and secondees and the costs are captured separately.

Reachback personnel are requested by the site management team on a short term basis (generally between three and twenty four months) to mentor and coach SL personnel and help SL implement key improvements and complete projects that will make the company and site more successful in meeting its long term goals and objectives.

[Just a few examples of this include a Magnox throughput improvement plan; reduction in risk to evaporator capacity through lifetime extension of Evaporator B; declassification of radiological controlled areas to allow for more efficient working and implementation of a Performance Evaluation Board, modelled after our own best practices to provide cross cutting reviews of operations].

Secondees are provided to fill key managerial posts (generally on the site Executive Team) to provide strategic and tactical direction to the SL workforce. The average tenure of our secondees has been somewhere between two and a half and three years.

**Reachback Costs (Q349—Q351)**

The reachback costs referred to by the Committee were related to financial years 2011–12 and 2012–13. Tony Price was appointed as Managing Director in May 2013, after the period in question.

An internal review of reachback engagement revealed opportunities to strengthen the governance process. Implemented improvements include consistent request protocols, formalised assessment of alternative sourcing options and the realignment of a senior level governance panel.

Reachback personnel numbers have been reduced from 120 in 2012 to 88 in 2013. The original 2013–14 forecast of 168k hours has been revised to an estimate at year end of 139k hours. Benefits accrued in site functional performance are measured and reported.

**Use of Reachback Resources (Q352—Q356)**

The redacted version of the KPMG report provided to SL and NMP has all of page 149 redacted. We have not had sight of the un-redacted version so are unable to comment on the details, but we can assure the Committee that all reachback personnel are recruited for their specific skills, capabilities and experience.

Reachback provides urgent expertise not immediately available in the supply chain or through local hires, and this has been our ground rule from the start.

The use of the term “backroom staff” is misleading if interpreted as commonly available administrative resources. The staff this refers to have all been engaged in the site’s change programme as experts in their technical and professional fields.

**Sub-contracting with Parent Companies (Q386)**

As noted above, our procedure for managing conflict of interest ensures that parent body personnel have no influence over procurement decisions. Assurance of the process for awarding contracts is provided by the Commercial Governance Committee, whose role is to ensure that commercial relationships are appropriately controlled and that decision making is fair and transparent.

The Commercial Governance Committee is chaired by a SL senior manager and the internal audit process is delivered by SL personnel.

As independently assessed, SL currently spends 34% (approximately £300 million) of its total supply chain spend in the local area, and we want to further improve this through closer working with the supply chain to help them compete successfully for work, but this must also be done in compliance with Sellafield’s public procurement legal obligations. We have engaged an external company that helped develop and implement the Olympic Delivery Authority’s supply chain strategy to gain learning we can apply to our approach.
While we are consistently seeking to improve, it should be noted that in 2007–08, prior to NMP’s arrival at Sellafield, the local supply chain spend was 28% (of a total £660 million). So over NMP’s first five years, the overall percentage of local supply chain spend has increased by 6% and in absolute terms the local supply chain expenditure has increased by over £100 million (50%).

As additional information, SL is currently working towards NDA’s 20% SME target by 2015 (including all direct and in-direct spend). Our current figures are already around 20% with SMEs, direct and in-direct, but we have an agreed action plan that we expect will take us to 21% and beyond. The Government’s SME targets and growth agenda are important to us and we have been proactive in working with the NDA to look at how we can make improvements in this area.

I trust that the information contained in this letter is of help to the Committee. NMP is committed to open and transparent communications and we are pleased to assist and respond to the Public Accounts Committee as you undertake your important responsibilities.

Tom Zarges
Chairman
12 December 2013

Written evidence from Sellafield Ltd

We would like the Committee to be aware that in response to Ms Hillier’s question number 373:

“ So that is working fine now and workers are able to work in it normally—there are no problems with ventilation or anything like that?”

Whilst Mr Price’s response of:

“They are able to right now, yes. “

Is accurate, it would be helpful for the Committee to understand that there had been an incident in that plant earlier in the week and Mr Price was fully aware.

There are three vitrification lines and people are working normally in lines one and two. That incident did involve a short loss of ventilation in line three but this was quickly restored. Some clean up and recovery work is necessary and that is in progress.

It was certainly not Mr Price’s intention to provide what could be perceived as a partial answer and I hope you will understand that this was towards the end of a long and gruelling session.

6 December 2013

Supplementary written evidence from Sellafield Ltd

VITRIFICATION PLANT (Q370—Q373)

On Wednesday 27 November there was a power loss affecting the Vitrification Plant, among others. There was evidence of contamination within three areas of Vitrification Plant Line 3 (VIT Line 3). There was no contamination in Lines 1 and 2.

Plant systems were quickly returned to normal, including ventilation, except for one section of the ventilation system in Line 3.

All areas are accessible; however, staff required to work in the small area affected will need to use additional Personal Protective Equipment until clean up is complete.

Prior to the power loss, the Vitrification plant was forecast to beat its schedule. Following the power loss incident we remain hopeful that we will achieve the schedule.

I hope this provides additional clarity to Mr Price’s answer to the committee. Yours sincerely

12 December 2013