

Meeting:	NuLeAF Steering Group, 27 February 2013
Agenda Item:	6
Subject:	Parent Body Organisation (PBO) competition
Author:	Stewart Kemp
Purpose:	To seek to ensure NDA involve local authorities in both a) determination of socio economic and other relevant criteria in PBO competition processes for new management contracts and b) evaluation of PBO performance against socio-economic and other relevant criteria in existing management contracts

This report updates on:

- NuLeAF correspondence with NDA
- Progress with Magnox & Research Sites Restoration Ltd (RSRL) PBO Competition
- Reports from the National Audit Office & Parliamentary Accounts Committee

Recommendation:

That officers liaise with NDA to arrange a briefing for member authorities about a) NDA criteria for PBO selection and b) NDA approach to PBO contract performance.

Contribution to the 2012/13 Service Plan:

Identify key issues for members resulting from NDA Strategy implementation including PBO competitions, community benefits, and waste storage consolidation proposals.

Seek a consistent approach in the setting of socio-economic and environmental criteria for PBO management competition processes, and contract review processes, at NDA sites.

1 Background

1.1 Valued at around £7 billion in total, award of the PBO contract for ownership of 12 Magnox Ltd and Research Sites Restoration Ltd (RSRL) sites represents one of the UK's largest public procurement exercises.

1.2 Given the significance of this contract process, and questions about PBO performance at Sellafield (see below) the last Steering Group meeting decided that NuLeAF should seek opportunities for relevant member authorities to be involved with:

- a) determination of socio-economic, environmental and other relevant criteria in Parent Body Organisation competition processes for new management contracts at NDA sites; and
- b) evaluation of Parent Body Organisation performance against socio-economic, environmental and other relevant criteria in existing management contracts at NDA sites.

It was further agreed at the last Steering Group meeting that officers report on progress to this Steering Group.

2 NuLeAF correspondence with NDA

2.1 As instructed, officers wrote to NDA in the terms at Annex A seeking a meeting to discuss a) how NDA propose to approach engagement with host local authorities at the Magnox and RSRL sites involved in the current PBO selection process, and b) what future opportunities may exist to engage host local authorities at NDA sites in current PBO performance review processes.

2.2 NDA replied in the terms at Annex B offering to arrange a seminar where NDA could present "...how local socio-economic and environmental development needs are met through the competition process" and explain "...our approach (to contract performance) to your members and learn from any relevant experience they may have."

2.3 It is therefore recommended that officers liaise with NDA to arrange a briefing for member authorities about a) NDA criteria for PBO selection and b) NDA approach to PBO contract performance.

3 Progress with Magnox & Research Sites Restoration Ltd (RSRL) PBO competition

3.1 On 11 January 2013 the NDA confirmed the configuration of the final four consortia that will compete for the PBO management contract:

- Reactor Site Solutions (Bechtel, EnergySolutions)
- The Babcock Fluor Partnership
- CAS Restoration Partnership (CH2M Hill, Areva, Serco)
- UK Nuclear Restoration Ltd (AMEC/Atkins)

3.2 Beginning this month the above consortia will start an eight-month period of formal dialogue with the NDA to provide each bidding teams with opportunities to gather information from NDA to inform final tenders. The dialogue involves meetings with NDA and site visits to enable prospective bidders to see at first hand the site challenges.

3.3 The overall competition, which started in July 2012, is set to run over two years. NDA plan to announce a preferred bidder in early 2014. The contract value is understood to be £4-5 billion over the next seven years and almost £2 billion for the following seven years.

4 Reports from the National Audit Office & Parliamentary Accounts Committee

4.1 The PBO at Sellafield – Nuclear Management Partners - came in for criticism along with the NDA in a report published by the National Audit Office on 7 November 2012. Of 14 projects reviewed at Sellafield the NAO found: “Twelve of these projects delivered less than planned during FY2011/12, which could delay risk and hazard reduction”. The report raised serious questions about the project management capability of both NDA and Sellafield Ltd whose senior management team is seconded from the PBO. A summary and brief analysis of the NAO report is appended at Annex C.

4.2 On 26 November 2012 the Parliamentary Public Accounts Committee visited the Sellafield site and met at the nearby Energus centre to quiz NDA’s CEO, Sellafield Ltd’s Deputy MD, and DECC officials about the NAO report findings. In advance of the hearing both Copeland Borough Council and Cumbria County Council submitted written evidence (appended at Annexes D and E).

4.3 During the Committee’s hearing session, NDA’s CEO made the following comments that shed some light on the future opportunities to restructure the PBO contract at Sellafield:

“The (Sellafield) contract that was let in 2008 was a 17 year contract with a five year break point and then, potentially, five years, five years and two years. It was envisaged as three five year terms and then a two year term to enable you to re-compete. So what we are doing at this point is, first of all, looking at if Nuclear Management Partners has met the minimum performance standards, which enables us to roll over. If they have not met the minimum performance standards, they are not eligible to roll over into the second contract term. If they have, what would we seek to do differently in

the second contract term to get a better outcome? So what better incentivisation would there be, within the bounds of the competition that we ran in 2008? Because we cannot step right outside of that; we have got constraints within which we competed. What changes would we make to the contract, what changes would we make to the way in which we operate in order to get better alignment and a better outcome?...

"...we are looking at a whole range of options. The first key thing we are looking for is a greater degree of alignment; that is, alignment from Government policy through the NDA, through the parent body, Nuclear Management Partners, Sellafield Limited, the supply chain, the workforce, everybody. The second thing we are looking for is a real improvement in overall leadership of the site, and we are working now: we have explained the outcomes that we want as part of the early negotiations and we are into the detail of those discussions now..."

4.4 The findings of the Parliamentary Public Accounts Committee were published on 4 February 2013 with six conclusions and recommendations as follows:

i) "The lifetime plan for Sellafield may be more credible than previous plans but it is still not clear that it is sufficiently robust. The plan has not been sufficiently tested against benchmarks and there are a number of uncertainties yet to be resolved... The Authority (NDA) should develop and apply benchmarks to assess the robustness of the lifetime plan and challenge existing assumptions on costs and timescales for critical projects; and rigorously examine the timetable for the geological disposal facility."

ii) "...To help ensure there is no further slippage to timetables and costs are kept under control, the Authority (NDA) should invite the Major Projects Authority to review the most critical and largest projects, and should report publicly on the progress of key risk reduction programmes against plans and budgets."

iii) "...The use of cost reimbursement contracts for Sellafield Limited and its subcontractors means the financial risks are borne by the taxpayer...The Authority (NDA) should determine how and when it will have achieved sufficient certainty to expect Sellafield Limited to transfer risk down the supply chain on individual projects and then to reconsider its contracting approach for the site as a whole."

iv) "...Nuclear Management Partners claim to have achieved efficiency savings worth almost £700 million. The Authority (NDA) is verifying these savings but National Audit Office reports have shown that, across government, claimed savings figures are often overstated. The National Audit Office should review the basis on which savings have been assessed and provide assurance to the Committee that the level of savings achieved at Sellafield has been measured and reported accurately."

v) "The Authority (NDA) has not been able to demonstrate what value it is getting for the payments made to Sellafield Limited. In 2011-12, the Authority paid out £54 million in fees, £17 million for 'reachback' staff and £11 million for executive staff seconded from Nuclear Management Partners. Sellafield Limited also awarded contracts to Nuclear Management Partners' constituent companies worth some £54 million in 2011-12. That means, in effect, that those who let contracts awarded their own constituent companies contracts, which raises concerns about fair competition and value. The Authority should ensure all payments are linked to the value delivered and that payments are not made where companies have failed to deliver. It should also routinely provide assurance on the operation of its controls over payments for Nuclear Management Partners' constituent companies."

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

4.5 This last recommendation could equally apply to other NDA sites, and the host local authorities could reasonably ask what added value can be achieved from taxpayers' investment, and clarify the respective roles of NDA and a PBO/site licence company in delivering this and set performance targets for contributing to the development of the regional and national economy and workforce.

ANNEX A

Letter from NuLeAF to Sean Balmer, Commercial Director, NDA

By email to: christine.love@nda.gov.uk

13 December, 2012

Dear Sean,

Re: PBO appointment and review processes and stakeholder engagement

The current selection process for a new PBO at Magnox and RSRL sites and the variable performance of the PBO at Sellafield highlighted by the recent NAO Report have raised questions amongst NuLeAF member authorities hosting NDA sites about their level of engagement in both PBO appointment and PBO contract review processes.

As you will know, NuLeAF raised this matter at the NDA National Stakeholder meeting though we recognised that the opportunity would be limited for any in-depth discussion. Therefore I write now to set out some of the matters which are of concern to our members and ask if we could look for an early date when representatives of NuLeAF could meet with you and your colleagues to discuss them.

A key concern for NuLeAF is the need for more transparency regarding the award of the PBO contract for Magnox and RSRL sites. Commitments have been made to stakeholder engagement (notably by Graeme Rankin at the 'Bidders Conference' last July) but how this will translate into specific engagement with the relevant local authorities hosting Magnox and RSRL sites remains unclear. The criteria to be adopted for PBO selection, and the expectation upon bidders to address local socio economic and environmental development needs also remains unclear.

We know NDA recognises the need to engage with local site stakeholders, and you have cited your approach at Dounreay as a model for engagement at Magnox and RSRL sites, but we need to understand the proposed content of that engagement, and the timeframe. Host communities deserve a clear, fair and acceptable 'offer' on socio-economic benefits, and you will understand from correspondence you have had from South Gloucestershire's CEO that assurances are also required about environmental performance and broader taxpayer 'value for money'. The latter point is heavily underscored by the recent NAO report. How NDA will involve host local authorities and other key local and national stakeholders in determining VfM is a question we would wish to explore with you.

In our view a starting point would be a structured time limited consultation explaining the PBO competition process and seeking views on proposed socio-economic, environmental and related criteria that should inform PBO selection. This could include a workshop for local authorities hosting Magnox and RSRL sites where the criteria and weightings proposed for evaluation of bids could be examined, discussed and, so far as possible, agreed. Proper transparency would also require a commitment to report the outcomes of such engagement, and how it influenced the criteria that PBO bidders will be expected to meet.

A separate but closely related issue is how to involve host communities in the monitoring of PBO contract performance. Having had 4 years' experience of PBO leadership at some NDA sites, and in the case of Sellafield, with a decision approaching before March 2014 about contract extension for a further 5 years, a question arises about engagement with host local authorities particularly in the evaluation of PBO socio economic and environmental performance.

Some information about the approach to evaluation of PBO contract performance was given by your CEO in response to questions from the Parliamentary Accounts Committee about the recent NAO report. He indicated that it would be possible to reconsider contract performance criteria for the next contract period from April 2014. This is an area that NuLeAF would wish to explore with a view to possibly developing a broader range of criteria against which future PBO performance might be assessed.

We hope it will be possible to meet with you in the near future to discuss the above matters. Should this be possible, and subject to practicalities, it is likely NuLeAF representation would include our Chair, Cllr Tim Knowles, Cumbria County Council, and Vice Chair, Cllr Richard Smith, Suffolk County Council, NuLeAF Executive Co-Director, Phil Matthews and myself.

We look forward to hearing from you regarding these matters.

Yours sincerely,

Stewart Kemp
Executive Co-Director
07841 421124

ANNEX B

Letter from Sean Balmer, Commercial Director, NDA, to NuLeAF



PBO appointment and
review processes and

ANNEX C

Note on the NAO report 'Managing Risk Reduction at Sellafield'

1. Introduction

1.1 The National Audit Office (NAO), tasked to 'safeguard the interests of taxpayers' by assessing value for money of public expenditure locally and nationally, and reporting to Parliament, undertook an inquiry into the Nuclear Decommissioning Authority's (NDA) approach to managing risk and progressing decommissioning and clean up on the Sellafield site. The NAO's findings were published on 7 November 2012 in a report entitled: Managing Risk Reduction at Sellafield. See: www.nao.org.uk/publications/1213/sellafield_risk_reduction.aspx

1.2 In a press statement accompanying report publication, the NAO said the NDA faced a "...considerable challenge...in taking forward the clean-up of Sellafield, the UK's largest and most hazardous nuclear site. To date the performance of some of the major projects at Sellafield has been poor. However, the Authority is taking appropriate steps with Sellafield Limited to improve this. It is too early to judge whether the Authority's appointment of Nuclear Management Partners Limited as the 'parent body' of Sellafield Limited is delivering value for money. "

2. NAO's key findings

2.1 During its investigation the NAO found:

- The NDA inherited a legacy of poor planning and neglect over several decades when it took ownership of Sellafield in April 2005. The NDA achieved an important milestone in May 2011 when it approved a more robust lifetime plan, and replaced a previous unrealistic plan, for the clean-up of Sellafield by 2120. The new plan was costed at £24.3 billion to 2026 – one third more than the previous plan at £18.2 billion.
- This improved lifetime plan contributed to an increase in the NDA's provision for decommissioning the Sellafield site to £67.5 billion (undiscounted) as at March 2012, up from £47 billion as at March 2009. The discounted lifetime cost for decommissioning and clean up at Sellafield (including Calder Hall) was given as £29.4 billion in NDA's second five year Strategy which took effect on 1 April 2011, though this figure had risen to £36.6 billion by March 2012 – an increase of over 20% within one year.
- Significant uncertainties and scheduling risks remain, which the NDA is working to understand and address. For example, there continues to be considerable uncertainty over the time required and cost of completing facilities to treat and store highly radioactive material held in deteriorating legacy ponds and silos.
- Nuclear Management Partners Ltd (the PBO) has achieved improvements in commercial operations on the site, including the reprocessing of spent nuclear fuel, and expects to deliver at least 80 per cent of its planned savings of £1.4 billion. However, the NAO also found that some of the NDA's 14 major projects

at Sellafield have not provided value for money. These projects are for the design and build of complex chemical engineering projects to retrieve, package and store hazardous nuclear material from old facilities. The projects range in cost from £21 million to £1.3 billion with total project costs amounting to £4.6 billion. Twelve of these projects delivered less than planned during FY 2011/12, which could delay risk and hazard reduction. Whilst NAO acknowledge inherited conditions and inherent complexity accounts for some increased costs, NAO also identify poor project design and delivery by Sellafield Ltd (and by implication, the PBO – Nuclear Management Partners Ltd).

- Five factors lead to cost escalation:
 - 'Cost plus' contracts that transfer little risk to Sellafield Ltd. NAO note that fees paid by NDA in FY 2011/12 to Sellafield Ltd which in turn are remitted to Nuclear Management Partners Ltd are provisionally estimated at £54 million - £19 million below the maximum fee potential largely because of poor project performance. Nonetheless £54 million is a substantial figure over a period when overall project costs increased by 117%¹.
 - Gaps in contractor capability. An example given in the NAO report is the lack of adequate welding skills during construction of Evaporator 'D'.
 - Insufficient recognition of design risks resulting in design modifications during construction – a feature of the most costly Evaporator D project and of earlier projects at Sellafield e.g. the Sellafield MOX Plant.
 - Inability to estimate costs accurately and 'optimism bias'.
 - Before May 2011, failure by NDA to gather robust and timely information from Sellafield Ltd to inform decisions on timely intervention.
- The NDA verified that Sellafield Ltd had saved at least £425 million since the arrival of Nuclear Management Partners Ltd, when compared against the baseline cost projections of the former Sellafield management, though this is not sufficient to automatically secure contract continuation beyond March 2014. For that to occur, a minimum performance standard including achievement of at least 80% of projected £1.4 billion efficiency savings (i.e. £1.12 billion) against inherited baseline costs would be needed. The NAO say NDA is now taking appropriate action to improve Sellafield Limited's performance on major projects and its own capacity to monitor delivery. Sellafield Ltd is also considering how to strengthen the fee incentive framework to improve project delivery.

¹ In the same period (FY2011/12) Sellafield Ltd had 16 executives supplied by Nuclear Management Partners Ltd who, over the period of PBO engagement from November 2008 to March 2012, cost the NDA £32 million – equivalent to over £½ million per year per executive. Whilst the PBO would not disclose actual salary packages under subsequent questioning by the Parliamentary Public Accounts Committee, it is known that the managing director at Sellafield receives a package amounting to £1.2m per year. Few other publicly funded executives, if any, receive a salary package approaching this level. As comparators, the newly appointed BBC Director General is to receive about £450k per year, and the newly appointed Governor of the Bank of England is to receive a package around £860k per year. With PBO salary packages at levels comparable to the very highest paid publicly funded positions, arguably the public's expectation of contract performance should justifiably be very high.

3. **NAO recommendations**

3.1 These above findings caused the NAO to recommend that:

- a) NDA need to understand better how Sellafield arrive at project costings;
- b) for 'cost plus' contracts NDA should look elsewhere for good practice to ensure taxpayers get value for money and better incentivise risk reduction, quality assurance and timely project delivery at Sellafield;
- c) NDA need better assurances from Sellafield that cost risks are understood and where contractors are employed, there is clearer accountability for under performance; and
- d) NDA should routinely report on its major projects.

4. **Reaction**

4.1 The NDA accepted the NAO report findings which identified "...examples where project delivery is not yet at the level of performance we or our contractors are striving for."

4.2 The Chair of the Parliamentary Public Accounts Committee immediately called on NDA to "...provide Parliament with regular reports to enable proper public scrutiny" and decided upon a hearing in West Cumbria on 26 November 2012 to question NDA's CEO, Sellafield Ltd's Deputy Managing Director, and DECC's Acting Permanent Secretary and Head of the Office for Nuclear Development.

5. **Issues for NuLeAF**

5.1 The NAO report effectively calls for greater transparency and accountability through regular reporting on major projects. The example of cost escalation around construction of 'Evaporator D', and NDA's attempts to keep this from public view, points to a continuing disconnect between NDA corporate behaviour and its declared corporate principles (set out in its Public and Stakeholder Engagement and Communications publication, August 2010). These principles clearly state "We therefore regard openness, transparency and effective public and stakeholder engagement and communications as key to building the support, confidence and trust necessary for the NDA to deliver its mission." The policy is good, but NDA does not always live up to it. Ensuring compliance with corporate principles will remain a key task for NuLeAF.

5.2 The NAO report, whilst stating it is too early to draw conclusions about the effectiveness of the PBO management at Sellafield, points to examples of underperformance where the PBO must share some responsibility. It is a weakness of the NAO report that it does not identify more clearly the accountabilities at the Sellafield site, and where responsibility lay. Nonetheless any call for increased public accountability for performance at Sellafield should include local accountability to host communities. The same accountability is required of PBOs at other NDA sites. Host communities need a role in both the process of appointing PBOs and in their periodic evaluation of performance against targets. The NAO report findings strengthen NuLeAF's case for closer engagement of local communities in the selection and periodic performance evaluation of PBO's at NDA sites.

ANNEX D

Parliamentary Public Accounts Committee Session 2012-13

Nuclear Decommissioning Authority: Managing Risk at Sellafield

Written evidence from Copeland Borough Council

Managing Risk Reduction at Sellafield – Copeland Borough Council's response to the National Audit Office Report and questions.

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

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

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

Issues Raised by the Report

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

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

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

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

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

3. Throughout the report there are numerous references to the cost over runs and under performance of projects stating that "Between May 2011 and March 2012, 12 of the Authority's 14 major projects delivered less than planned." (Pg.8 .11). The report is critical of the implementation of 'Risk Transfer' to NDA and the ability of the NDA to both set the budget at the start of the year and to then amend it (pg. 35, 3.9). There is little accountability for cost overrun and the fees incentive to keep cost down is ineffective. The Council seeks further clarity into how the NDA "is considering how the existing incentive framework could be strengthened if it is chooses to renew the parent body agreement in 2014".

4. The report states that "Gaps in the capability of subcontractors in the supply chain to undertake work to the standards required for nuclear installations have had direct consequences for the speed and efficiency of project delivery" (Pg. 38 3.11). The NDA and Sellafield have long standing commitment to work with the local supply chain to help it develop and maintain its ability to be 'fit for purpose'. How has the NDA/Sellafield allowed such an avoidable situation to occur and what strategy are they implementing to ensure that skills and capability gaps are filled, to enable the local supply chain to work effectively and competitively? To what extend is the poor project management and mission shift on the major projects on site affecting the ability of the supply chain to perform?

5. Local suppliers have difficulty in accessing the work at Sellafield. This is a direct result of the procurement process and the implementation of a large-scale framework contracts. There appears to be a blockage in the filtering down of large scale projects from tier 2 contract holders to local sub-contractors. The report states that the NDA is working with Sellafield Ltd to develop its procurement strategy (Pg. 38 3.12). How will the framework be monitored and modified? And how will the concerns as outlined above be addressed?

6. Under the Energy Act 2004 the NDA has a duty to consider the socio-economic impacts of its strategies and plans. The Council echoes the concerns raised by the Public Accounts Committee and the calls to incentivise site operators more effectively and to strengthen their supply chain (Pg.6 .6). An effective quality assurance process needs to be in place to ensure that Sellafield Ltd is helping local firms. Is there adequate contractual provision to ensure that the NDA holds Sellafield to account for their socio-economic obligations to the locality?

7. The existence of intolerable risks at Sellafield has arisen as a result of successive government's inability to address the problem and deferred decision-making. The report goes some way to identifying some of the effects of deferred decision making (Pg.16, 1.10) what others are there, and how are lessons learned from this experience taken forward in the current decommissioning programme to ensure that we leave a safe and positive legacy for future generations?

The Council appreciates the opportunity to critically review the strategy, plans and processes currently implemented within the Sellafield decommissioning strategy and governance system. We would welcome the opportunity to further work with the NDA and the NMP to provide positive meaningful engagement that would help facilitate the future implementation

of the plan through successful community engagement and adding value to the local supply chain.

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

Cllr Elaine Woodburn

Leader of Copeland Borough Council

23 November 2012

ANNEX E

Parliamentary Public Accounts Committee Session 2012-13

Nuclear Decommissioning Authority: Managing Risk at Sellafield

Written evidence from Cumbria County Council

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

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

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

Value for Money:

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

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

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

- The PBO, as set out in the NDA Operating Model Guidance is responsible for providing leadership through the provision of suitably qualified and experienced staff that can lead the decommissioning and clean up mission on the site. The report notes that between 2008 and 2012, the cost of the Sellafield Executive has totalled £32m with an additional £17m in 2011-12 for 'reachback' enhancers. On page 10, the report notes that between November 2008 and March 2012 the total cost to the NDA of staff seconded from Nuclear Management Partners into Sellafield Ltd was £76m. The report also notes that it is too early to judge whether the appointment of NMP as parent body provides value for money, however with the end of the initial five year period approaching, the Council believes that some assessment of return on investment needs to take place at the earliest possible opportunity.

- Knowledge & Experience – The majority of the executive-level staff only remain on site on average between 2-3 years and then return to undertake other roles elsewhere within their parent companies wider operations. This raises concerns around continuity of approach and the ability of executives to make a meaningful difference at Sellafield with a long-term approach in mind.

- Long-term planning – With the length of the PBO contract lasting up to 17 years, this raises questions as to what incentive there is for the incumbent to plan for decommissioning activities effectively after that period? The report notes on p16 that "successive site operators developed Sellafield without sufficient thought to decommissioning or retrieving and disposing of radioactive waste". One reason for this could have been the lack of incentive as there was

no profit to be made from such activity. With this in mind, what assurances are in place for the parent body company to plan sufficiently for activity that will take place after their contract has ended?

- Lifetime Planning – On P20 the report notes that the NDA has agreed both a 'contract baseline' and a 'performance plan' with Sellafield. The former outlines the baseline against which performance improvements are measured to calculate fees. The latter sets out what Sellafield Ltd expects to achieve each year showing how it will outperform the contract baseline. Sellafield Ltd is responsible for writing both of these Plans. With this in mind, the Council welcomes Recommendation 10 (p7) to ensure that there are suitable assurances in place to assess levels of performance by Sellafield.

Performance against Projects & Supply Chain:

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

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

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

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

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

- The long term planning is not yet taking place with DSA partners and thus the wider supply chain noting limited visibility in work at Sellafield. This is impacting considerably on smaller companies being able to plan their future potential workloads.
- A lack of work at this time flowing through the DSA contract compared to that which was expected. Whilst this is impacting on DSA partners themselves – it is crucially having a substantial effect on smaller companies who are noting a substantial reduction in work compared to previous years. This reduction in work, should it continue has the potential to destabilise a number of West Cumbrian firms, lead to high value job losses and potentially business closures.
- There is a growing perception that doing business at Sellafield is becoming increasingly difficult for smaller businesses. With Frameworks ensuring that only the largest national and international firms are able to bid to be Tier 2 contract holders, local businesses are reliant on

such companies electing to genuinely follow the 'best athlete' principle and welcome West Cumbrian companies into their supply chains. If local firms are unable to secure meaningful work at the site it could not only result in destabilising existing businesses but it could impact on business start up and inward investment with West Cumbria becoming too high risk to consider establishing a business base. This has a considerable knock-on effect on the local economy

- The length of the Frameworks – although apparently providing greater value for money and visibility, could equally have a potentially negative impact through tying the supply chain to a single business/consortium for up to 15 years. If successful relationships are not cemented early on, it will be increasingly difficult for local companies to access work at Sellafield.
- EU and the Office of Government Commerce both note that it is important to establish a contracting environment that facilitates SME access to promote competition and act as a counterbalance to dominant market players. There is a strong argument that the Framework arrangements run entirely contrary to this ethos and serves to stifle innovation within smaller companies and force them to contract through the dominant market players rather than being able to provide balance.

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

Openness and Transparency:

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

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

Cllr Tim Knowles

20 November 2012