PREM 19/3373

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Confidential filing

The Shareholding in British Nuclear Fuel Ltd – BNFL

Future of British Nuclear Fuels Ltd

Pay Negotiations

GOVERNMENT MACHINERY

FEBRUARY 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.3.81~~		~~20.6.90~~					
~~21.3.83~~		~~25.6.90~~					
~~30.3.83~~		~~24.4.91~~					
~~22.6.83~~		~~29.11.91~~					
~~1.7.83~~		~~10.5.91~~					
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PREM 19/3373

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(83) 3rd Meeting	30/03/1983
E(83) 5	21/03/1983

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 16/6/2017

PREM Records Team

CONFIDENTIAL

file DSG
A: 1BNFL

bc: P.U.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 July 1991

Dear John,

BRITISH NUCLEAR FUELS (BNFL)

Thank you for your letter of 28 June which indicated that Mr. John Cunningham M.P. had been asked to open the Magnox encapsulation plant at Sellafield in September; and that your Secretary of State saw advantage in Mr. Cunningham carrying out the opening ceremony.

The Prime Minister would be content for Mr. Cunningham to open formally the new plant in September. But, on balance, he would prefer your Secretary of State to perform the opening ceremony.

Yours ever,

Barry

Barry H. Potter

John Neilson, Esq.,
Department of Energy.

CONFIDENTIAL

OTS.

010

CONFIDENTIAL

THE RT HON JOHN WAKEHAM MP

Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

Prime Minister ①
Content for Mr Cunningham to open the Magnox encapsulation plant at Sellafield?
BTP
28/6

Content
but I'd prefer S of S to do it.

Barry Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

28 June 1991

Dear Barry,

BRITISH NUCLEAR FUELS

British Nuclear Fuels (BNFL) are due to open their Magnox encapsulation plant at Sellafield in September. They are minded to ask Jack Cunningham, as their local MP, to perform the opening. Before asking him, however, they have asked my Secretary of State whether he would be content.

Mr Wakeham sees some tactical advantages for the longer term future of the nuclear industry if Mr Cunningham associates himself with BNFL in this way. Mr Cunningham's assistance with the forthcoming public inquiry into NIREX's proposals for a deep repository at Sellafield will be important. Sir Robin Butler's office have confirmed to us that there would be no difficulty on grounds of propriety in inviting Mr Cunningham to open this plant. Mr Wakeham has asked if you could check that the Prime Minister would also be content for him to let Mr Cunningham perform this ceremony. He would of course be prepared to undertake the engagement himself if the Prime Minister preferred this.

Yours
John

J S NEILSON
Principal Private Secretary

CONFIDENTIAL

cc PU

THE RT HON JOHN WAKEHAM MP

n.b. P.M.
BHP
20/6

Department of Energy
1 Palace Street
London SW1E 5HE

071 238 3290

The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

20 June 1991

Dear David

BRITISH NUCLEAR FUELS PLC: 1991 PAY NEGOTIATIONS

Thank you for your letter of 14 June about BNFL's 1991 pay negotiations.

In accordance with its remit, BNFL made a final offer of 7% to the industrial unions on 12 June. As I predicted in my letter of 10 June, this was rejected and the membership is now being consulted with a view to organising formal ballots to decide on industrial action. The result of any formal ballot for industrial action is not expected until mid-July.

The Company is meeting its non-industrial unions on Wednesday 19 June and will make a similar offer which is also expected to be rejected. I shall keep you in touch with developments.

I am sending copies of this letter to the Prime Minister, members of EA(PSP) and to Sir Robin Butler.

Yours ever

John

JOHN WAKEHAM

Gorbachev: Brief
Feb 81

cst.ps/let/8dm12.6

CONFIDENTIAL

cc PM

Treasury Chambers, Parliament Street SW1P 3AG
071-270 3000
Fax 071-270 5456

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

14 June 1991

BNFL: 1991 PAY NEGOTIATIONS

Thank you for your letter of 10 June. I am also grateful for Michael Howard's comments of the same date which I generally endorse.

2. I understand that BNFL has no significant recruitment and retention difficulties. BNFL staff have a June settlement date and inflation is falling rapidly as is the level of private sector settlements. In the circumstances there appears little case for a settlement above 7 per cent.

3. I am of course aware of BNFL's difficulties, caused not least by the intolerable position whereby the unions can disrupt BNFL at little cost to themselves, but a great cost to BNFL. Nevertheless, to concede so readily to a settlement of up to 8 per cent would run counter to EA(PSP)'s agreed strategy for progressively reducing public sector pay settlements. As Michael Howard has already pointed out it would also undermine the tough stance being taken elsewhere in the public sector, notably by Post Office Counters. Finally, I am concerned that such a large increase in the current offer might simply fuel the unions' expectations and encourage further media speculation that the disciplines which are clearly biting in the private sector are not being reflected in the public sector. I do not therefore think it would be appropriate now to increase BNFL's remit from 7 per cent.

4. I am copying this letter to the Prime Minister, members of EA(PSP) and Sir Robin Butler.

DAVID MELLOR

THE RT HON JOHN WAKEHAM MP

Department of Energy
1 Palace Street
London SW1E 5HE

071 238 3290

The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

10 June 1991

Dear David

BRITISH NUCLEAR FUELS PLC (BNFL): 1991 PAY NEGOTIATIONS

I am writing to let you know of progress on the BNFL pay round.

Current position

BNFL have managed the timing of the negotiations to take full account of the falling RPI. They cancelled two meetings in April and a further one on 22 May, while keeping the unions at the table. At the meetings on 8 and 10 May, BNFL made offers of 6.5 per cent to both industrials and non-industrials. Both groups rejected the offers. BNFL are now finalising their plans for the meeting with the industrials on 12 June.

BNFL are firmly of the view that an offer, expressed to be final, of no more than 7 per cent, would lead to an immediate ballot for industrial action with a high probability of success. Because of safety requirements, the unions are able to disrupt activities at Sellafield at little cost to the workforce, but with considerable costs to BNFL.

Sticking with the 7 per cent remit, especially in the light of settlements and offers elsewhere in the public sector, would therefore be likely to lead to BNFL management losing the initiative and eventually being forced to concede a higher final settlement than if they struck a deal at this stage.

Next steps

BNFL discussed the position with the Department on Wednesday following their executive meeting. Their plan is to aim for an offer which the unions will just be prepared to recommend or, failing that, to stand firm on one which would be credible in a

ballot. They have made it clear that any real increase in wages has to be paid for. They are anxious to settle for 7.75 per cent or less but believe that in order to achieve a deal they might have to go a little higher, while remaining below 8 per cent.

BNFL remain very anxious to contain salary costs, and will wish to aim for the lowest possible settlement. However, they believe that some flexibility will be needed to avoid having to conclude the negotiations in the face of a clear mandate for a strike.

I believe that, in the light of the 8.9 per cent offer to electricity supply industry workers, BNFL's proposed strategy represent the best prospect for a reasonable settlement. I should be grateful for your agreement to the proposals set out above which will keep the pay rise below 8 per cent. BNFL are holding a pre-meeting with the unions on 11 June and so an urgent reply will be needed.

I am sending copies of this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

Yours ever
John

JOHN WAKEHAM

cst.ps/let/2dm17.5

CONFIDENTIAL

cc PS.

n.5.P.M.

BHP

20/5

Treasury Chambers, Parliament Street SW1P 3AG
071-270 3000
Fax 071-270 5456

David Heathcoat-Amory Esq MP
Parliamentary Under Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1

17 May 1991

Dear David

UKAEA: PAY OF INDUSTRIAL STAFF 1991

Thank you for your letter of 10 May about the forthcoming pay negotiations at the UKAEA.

2. Given the restructuring that has taken place over recent years, including implementation of productivity and efficiency initiatives, I am content that an opening across-the-board offer of 6 per cent on basic rates may be made.

3. With inflation likely to fall quite sharply within the next month and bearing in mind the importance of achieving more moderate pay settlements generally, I must stress the need for UKAEA management to negotiate with the aim of achieving a settlement below 7 per cent on overall average earnings in both first and full year terms. I am content, as you suggest, to agree to a precise remit in the light of the first negotiating meeting.

4. I am copying this letter to the Prime Minister, members of EA(PSP) and Sir Robin Butler.

Yours

DAVID MELLOR

SOVIET MACH: BNK
Feb 81

01.0

cc PH

n.b. P.M.

BHP

13/5

Department of Energy
1 Palace Street
London SW1E 5HE

071 238 3169

The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

10 May 1991

Dear David,

UK ATOMIC ENERGY AUTHORITY (AEA): INDUSTRIAL PAY 1991

In the Secretary of State's absence abroad, I am writing about the AEA's forthcoming negotiations with the industrial trade unions on 1991/92 pay. The unions submitted a formal pay claim at the meeting of the National Joint Industrial Council on 20 March. The AEA propose to make an opening offer at the next Council meeting on 22 May. An informal meeting with the trade union leaders is planned for 20 May.

Last year the Chief Secretary asked that advice on both the AEA's and BNFL's negotiating strategies be provided at the same time. However, John Wakeham has already given you details of BNFL's proposals since their formal negotiations began on 8 May. My proposals for the AEA remit are in line with those you are prepared to agree for BNFL.

The claim which was formally tabled by the Trade Union Side on 20 March was as follows:

(i) Pay: a substantial (but unquantified) increase in basic pay to improve the standard of living of members, and a further measure of consolidation

(ii) Working Week: a reduction of the working week towards 35 hours, without loss of pay

(iii) Holidays: an increase in annual leave entitlement, and holiday pay to be made at time-and-a-half for leave taken in blocks of days or more

(iv) Paternity Leave: an increase in paternity leave as of right.

The AEA are proposing to make an opening offer of 6% on grade rates and the Engineering Supplement but not to offer anything on other consolidations, hours, leave and holiday pay or paternity leave. This would result in an overall increase in take home pay of somewhat less than 6% for most of the industrial workforce. At the meeting on 22 May the AEA will not make any further offers. Should in the event the AEA find that this figure is insufficient to effect a satisfactory settlement, they believe they may need to increase their offer to about 7%, which they will apply differentially. The higher increases would go to craft workers, but again the general increase in take home pay would be less than 7%.

In making this proposal the AEA recognise that headline inflation is expected to fall over the next few months. They intend therefore to play the negotiations fairly long: their opening offer will be made after the April figures are published and they do not intend making a final offer until late June or early July.

The AEA believe an increase of around 7% is required to ensure that they retain the right calibre of people within their work force. Although they have been reducing their industrial work force significantly, they are concerned that the core they retain is both well motivated and flexible, particularly as they go through a period of continuing change. It is, of course, the staff that they wish to retain that are more attractive to other employers. 7% also recognises that the industrials will be influenced by the pay settlement for the non-industrial work force; this is linked to Civil Service salaries and the 7.8% offer to NUCPS.

The AEA do not propose to concede anything on the non-pay elements of the unions' claim although they recognise that an increase in paternity leave would not be costly and could be an area in which a modest concession could be made during the course of the negotiations. The AEA would like to explore the feasibility of a differential settlement this year with smaller increases to the Non-Craft Industrials. However this has always been a sensitive issue and was flatly rejected by the unions last year. The AEA believe this would occur again year if it were part of the opening bid.

I propose that we endorse the AEA approach, namely an opening offer of 6% on grade rates and the Engineering Supplement on 22 May, with nothing at this stage on other consolidations, hours, leave and holiday pay or paternity leave. We can review this position in the light of the outcome of the first meeting, and of developments elsewhere before the next meeting which is expected in late June or early July.

I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

Yours ever

David

DAVID HEATHCOAT-AMORY

CONFIDENTIAL

cc PU

N.S.P.M.
PSHP
30/4

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

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Secretary of State

The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

29th April 1991

Dear David

BNFL 1991 PAY NEGOTIATIONS

I have seen John Wakeham's letter of 24 April to you about BNFL's proposed strategy for this year's pay negotiations.

We agreed in EA(PSP) to set ambitious targets for public sector pay moderation and on the need to manage the level of settlements firmly downwards against the background of changing economic conditions. We have had moderate success so far in achieving those objectives and it is essential to work to continue that trend. With the prospect of inflation falling to 6% or below for April, and to 4% by the end of the year, I believe we should now be looking for a significant further fall in settlement levels.

With those considerations in mind, I find it hard to see the justification for any increase above 6% for the BNFL workers, whose settlement is not due until 1 June, especially in the absence of any obvious recruitment or retention problems. I am sure that we should expect them to achieve a settlement below 7% and to make no offer in advance of the release of the April RPI figure on 17 May.

I am copying this letter to the Prime Minister, members of EA(PSP) and to Sir Robin Butler.

Yours ever

Michael

MICHAEL HOWARD

GOVT MACH: BNFL Pay Negotiations Feb 81

PAY IN CONFIDENCE

THE RT HON JOHN WAKEHAM MP

Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

The Rt Hon David Mellor QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

24 April 1991

Dear David

BNFL 1991 PAY NEGOTIATIONS

BNFL will be opening their pay negotiations with the industrial unions on 8 May and the non-industrials on 21 May. In previous years BNFL has tried to secure an agreement before their settlement date of 1 June by opening their negotiations in April. This year however they have delayed the start of the negotiations in order to take advantage of the fall in inflation.

I was asked last year to provide advice on both BNFL's and the AEA's negotiating strategies at the same time. As the AEA will not be beginning their formal negotiations until 22 May I am not yet in a position to provide you with their detailed remit. We will however need to keep a close eye on how both sets of negotiations develop.

Over the past year I know that our officials have discussed BNFL's long term pay strategy with the Company and that Treasury are aware of the progress BNFL has made over recent years with increased pay flexibility and the introduction of local efficiency agreements. In particular the pay spine agreement reached with the non-industrials last year has done a lot to alleviate their retention and recruitment problems. These developments are continuing, and will of course be included in the pay strategy paper which the Company will be preparing as part of this year's Board bonus scheme.

BNFL are not however seeking any further agreements on restructuring this year. Their aim is simply to secure as low a settlement as possible whilst avoiding industrial action. At the moment their expectation is that they should be able to secure a settlement significantly below the 7.8% on offer to the NUCPS, but much will depend on the level of settlements reached by key groups over the next few months.

Given this overall aim BNFL see advantage in not actually making an offer at the meeting on 8 May. If at all possible they want to avoid making an offer until next month's inflation figures are available. However if they are pressed strongly by the unions they may be forced into making an offer just to avoid the talks breaking down. (You are already aware of the strong negotiating position held by key workers, particularly at Sellafield, and the increased danger of industrial action that this brings.) If BNFL are forced to make an offer they would aim for something below 7%. They would only stray above this if the unions took a very strong line and BNFL judged that something slightly above 7% was needed to avoid an immediate ballot for industrial action. Their preferred approach however is to avoid making an offer.

I am copying this letter to the Prime Minister, members of EA(PSP) and Sir Robin Butler.

Yours ever

JOHN WAKEHAM

cst.ps/let/13nl22.6

CONFIDENTIAL

CEP

n. b. P.M. at this stage. PdP 26/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

25th June 1990

Dear John

at flop

BNFL: 1990 PAY ROUND

Thank you for your letter of 18 June.

2 I am very concerned about the pay offer made to BNFL staff last week and the unhelpful publicity that it received. This will add to the difficulty of the current pay round.

3 Pay remits are agreed and offers and settlements should be costed on the basis of existing work patterns and staff numbers, not on assumptions about changes that might occur in the future. Explicit and quantifiable productivity deals agreed as part of a settlement may be taken into account but I understand that no such agreement has been reached in this case. Indeed I understand that BNFL have offered a one-off payment to secure the unions' agreement to discuss more flexible pay structures. This is a particularly unfortunate development. There is no doubt therefore that if properly costed, the offer would exceed the agreed remit - probably significantly so. I would be grateful for accurate costings of the offer on the normal basis of average earnings and the effect on the pay bill.

4 This is the third consecutive year in which BNFL has breached its remit. In order to improve upon current arrangements I think that adherence to a pay strategy agreed in advance should be one of the factors taken into account in determining the size of bonus payments made under the Board's bonus scheme for 1991-92 and beyond, the details of which we have yet to agree.

5 I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours

NORMAN LAMONT

Govt mach: Bank
Feb 91

MR POTTER

20 June 1990

n. b. P.M.
BHP
21/6

BNFL: 1990 PAY ROUND

Mr Wakeham fairly claims that BNFL has a good record of "containing" the impact of past pay settlements.

This year's pay offer may not equate to the union claim of 11.2% but it must be worth more to earnings than 9.25%. If the management can indeed squeeze that within a manpower budget increase of 6%, well and good.

But Mr Howard is right to say that the recognised method of costing pay settlements assumes constancy in manpower and output payments. So, on the face of it, BNFL exceeded its remit and a high settlement was apparently conceded.

In present conditions, this is a bad precedent. Might the Prime Minister remind colleagues that there should at the very least be a consistency of presentation?

Howell Harris Hughes

HOWELL HARRIS HUGHES

cc PU

CONFIDENTIAL
Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 071-273 5802
Telex 915564 Fax 071-273 5821

N.S. P.M.
BHP 20/6

Secretary of State

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

20th June 1990

Dear Norman

BNFL: 1990 PAY ROUND

Play

I read with concern John Wakeham's letter to you of 18 June.

I note that BNFL have agreed to consolidate productivity payments over and above the 9.25% increase on basic rates. Despite their imposed ceiling of 6% on paybill costs, it seems to me that there is no guarantee that average earnings will not rise beyond 9.25% because of the uplift in overtime rates. Moreover, the recognised method of costing pay settlements generally assumes constancy in output related payments and manpower levels; on that test the offer exceeds the agreed remit. That is particularly regrettable given the firm stand which we sought.

Whatever the realities of the settlement turn out to be, the damage has already been done publicly. It is most unfortunate that union statements that the offer is worth up to 11.2% have received extensive media coverage and have gone unchallenged. It is important that a similar situation does not arise in relation to the offer to the non-industrialists.

We must clearly do all we can to prevent public corporations exceeding agreed remits in future.

I am copying this letter to the Prime Minister, members of E(PSP), and to Sir Robin Butler.

Yours ever

Michael

MICHAEL HOWARD

Employment Department · Training Agency
Health and Safety Executive · ACAS

GOVMAEN. BNFL fe[illegible]

CC PU

NO

THE RT HON JOHN WAKEHAM MP

Prime Minister

Mr Wakeham has managed to contain settlement for BNFL at 9.25% – despite earlier indications it would have to be raised. Moreover cost is being absorbed by some reduction in employees – since the total pay bill is to be contained to a 6% increase.

BHP 18/6

SECRETARY OF STATE FOR ENERGY

Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

18 June 1990

Dear Norman.

BNFL: 1990 PAY ROUND

You will have seen press reports that Mr Dromey of the TGWU has described the BNFL offer made to the industrial unions on Friday as being worth up to 11.2%.

This is not so. The settlement reached after a long negotiating meeting on Friday afternoon, and to be put to the workforce with a recommendation to accept, comprises:

a) 9.25% on base rates (no increase on BNFL's earlier offer).

b) Consolidation into base rates of a productivity achievement bonus which has in fact been capped at £11 per week for several years.

c) A commitment by the unions to join in discussions to address problems (such as the existence of a company-wide common craft rate), which currently blocks the achievement of a more flexible pay structure. This linkage has been a major aim of BNFL management in these negotiations, as my letter of 4 June stated.

The only way in which the settlement can increase average earnings by more than 9.25% is through overtime and holiday pay related to the consolidated bonus element. Mr Dromey is doubtless presenting figures to his membership on the assumption that the settlement will have no effect on the amount of overtime worked. However, since the Chief Executive of BNFL has already

instructed his Divisional managers that the cost of the settlement must be contained within manpower budgets which allow for no more than 6% increase in the total pay bill, there is in fact likely to be a significant cut in this amount (together with further reductions in manning levels). Mr Dromey knows this. He also knows that BNFL have been very successful in recent years in containing the impact of settlements - the average percentage increase in their pay bill over the last three years has been about 3%.

BNFL management meets the non-industrial unions later this week. They expect an offer made on similar lines to be accepted.

Whilst the presentation of BNFL's offer by the unions is unfortunate, I think that the impact will be very short-term as the realities I have spelt out above come to be appreciated.

I am copying this letter to the Prime Minister, members of E(PSP), and to Sir Robin Butler.

Yours ever

John

JOHN WAKEHAM

cst.ps/dr/13nl11.6

CONFIDENTIAL

cc PM

n.b. P.M.
BHP
12/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

11 June 1990

Dear Secretary of State

BNFL: 1990 PAY ROUND

Thank you for your letter of ~~4 June~~ WILL REQUEST IF REQUIRED.

2. I considered very carefully the merits of ~~the~~ Prop case on BNFL before I last wrote to you about this on ~~16~~ May. As you know, at the time I took the view that the upper limit of a settlement should be 9.25 per cent. I have reviewed that decision in the light of your further letter but I do not believe the substance of the case has changed. I am not therefore prepared to agree to the further increase in the remit that you propose.

3. A 9.25 per cent settlement for this group would seem a very reasonable outcome. It would for example compare very favourably with the settlements from British Rail and London Underground which were worth only 8.6 per cent in the first year.

4. In view of the serious recruitment and retention difficulties BNFL has in particular areas it is very unfortunate that they consider that they are unable to address them through a targeted pay settlement. Changing any union agreements that prevent this is clearly something that must be tackled urgently.

5. I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours sincerely

C Evans

NORMAN LAMONT

approved by the Chief Secretary and signed in his absence

CONFIDENTIAL

GOVT MAGH: BNFL, FERRI.

CONFIDENTIAL
Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 071-273 5802
Telex 915564 Fax 071-273 5821

Secretary of State

cc PU

N.J.P.M.
BHP
12/6

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

9th June 1990

Will request if required

Dear Norman

BNFL: 1990 PAY ROUND

I have seen John Wakeham's letter of 4 June to you about these negotiations.

I am disappointed that BNFL have been unable to reach agreement on a 9.25% offer and that they were unable to target pay increase at groups in short supply.

I believe that the present pay offer is a reasonable one and I see no justification for further improvement. It compares well with other recent public sector settlements including those for more powerful groups such as BR workers and the local authority white collar staff. There are no labour market grounds for increasing it. The issue is simply whether the prospect of industrial action should dictate further concessions. In pay strategy terms, and taking account of the approach to pay which we have endorsed in E(PSP), no further concessions should be made.

A strike at Sellafield would obviously be unwelcome but as John said in his letter of 14 May, safety cover would be maintained and there would be no environmental problems. Industrial action ought therefore to be tolerable providing the media are handled carefully and effectively to allay public concern. A high pay settlement for this group could also have adverse media implications, as it would be seized on as further evidence that public sector pay is on an upward spiral.

Secretary of State
for Employment

CONFIDENTIAL

In all the circumstances, I believe that we should resist any improvement to the current offer and be prepared to face down a strike if necessary.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours ever

Michael

MICHAEL HOWARD

cc P.U.

CONFIDENTIAL
Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

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Telex 915564 Fax 071-273 5821

Secretary of State

n.b. P.M
at this stage.
RTP
16/5

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

16 May 1990

Dear Chief Secretary

BNFL: 1990 PAY ROUND

- will request if required.

I have seen John Wakeham's letter of 14 May about the revised offer which BNFL wish to put to their unions in the further negotiations which begin on Thursday.

I find it hard to see the justification for increasing the present 8¼ % to as much as 9.4%, particularly at this stage of negotiations. Quite apart from the size of the increase, the link between a 9.4% offer and the current level of the Retail Prices Index would be transparent and would run counter to the flexible and market-related approach to pay which we have advocated both publicly and in E(PSP).

Despite the possible risk of industrial action, I believe BNFL must hold the line at 9% for the generality of their staff. However, as I indicated in my letter of 17 April, it may well be appropriate for BNFL to offer higher increases to the small number of craft groups with a relatively high turnover rate. Such an approach would be fully consistent with our policy.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours faithfully

Bryony Lodge

MICHAEL HOWARD

(Approved by the Secretary of State
and signed in his absence)

ECON POL: Public Sector Pay

Pt 14

cst.ps/dr/3nl16.5

PAY IN CONFIDENCE

cc PU.

Prime Minister!

To note. The escalation from 8.25% to 9.4% is very worrying.

BHP 17/5

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

16 May 1990

File with BP

Dear Secretary of State

BNFL: 1990 PAY ROUND

Thank you for your letter of 14 May.

2. I am very disappointed that, despite my comments and those of the Prime Minister, BNFL made an initial offer of 8.25 per cent with no hope of reaching a settlement at that level.

3. I have considered carefully the case you have put for a higher remit for BNFL. We would not want to precipitate strike action but it is not something to be avoided at all cost. I am prepared therefore to agree to the strategy you propose subject to an upper negotiating limit of 9.25 per cent on average salaries overall rather than 9.4 per cent as you propose. I am sure you will understand why I would wish to avoid an offer that was the same as the April RPI figure.

4. As to tactics, I agree that BNFL should leave some room for manoeuvre within the 9.25 per cent at the next meeting unless an immediate settlement can be reached. I also remain of the view that part of the settlement, say ¼ per cent overall, should be reserved to target at the recruitment and retention problems which you highlighted in your earlier letter.

5. I am copying this letter to the Prime Minister, members of E(PSP), and Sir Robin Butler.

Yours sincerely

Alison Campbell

NORMAN LAMONT

Approved by the Chief Secretary and signed in his absence

SOV IT MACH: BNFL Feb 81

THE RT HON JOHN WAKEHAM MP

Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

The Rt Hon Norman Lamont MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

14 May 1990

Dear Norman

at flag

BNFL: 1990 PAY ROUND

Thank you for your letter of 18 April on BNFL's pay strategy. I have also seen Michael Howard's letter of 17 April, and that from the Prime Minister's office dated 23 April.

At the initial meetings with both the industrial unions on 18 April, and the non industrials on 25 April, BNFL's opening offer of 8.25% was rejected as totally inadequate. The next round of negotiating meetings begins later this week, with the industrials on 17 May, and the non industrials on 23 May. BNFL's settlement date is 1 June.

I understand fully the points you make in your letter, and the reasons why you propose a settlement below 9%. I have considered the continuation of this strategy with BNFL in the light of the latest inflation figure of 9.4%, and their clear advice is that if they are restricted to offering less than 9% at the next round of meetings, then the negotiations will break down with an immediate call for a ballot in support of strike action.

I have therefore considered a second option: allowing the Company to negotiate over 9% next week, and up to 9.4% if they see a good chance of this leading to settlements. It is unlikely that such settlements would be achieved in May, but offers of between 9% and 9.4% will keep the negotiations open and, provided there is no major increase in inflation next month, BNFL think that settlements at around 9.4% should then be possible at the June negotiating meetings.

I appreciate the Treasury may feel that settlements at this level could have wider consequences for our pay strategy as a whole. However, given our shareholder relationship with the Company, on balance I believe that we should allow them to negotiate up to 9.4%. If we stick to the existing strategy there is a very

strong likelihood of a strike, with BNFL's main plants, including Sellafield, being shut down from early June onwards. Although in reality this would not create safety or environmental problems since safety cover would be maintained, there would inevitably be media concern both in the UK and overseas, creating further problems for our nuclear policy overall.

So far BNFL's pay negotiations have not been a major news item, and the Company would endeavour to ensure that this continued and that their settlements received minimum publicity. Morevoer the new contractual relationship that BNFL is negotiating with the Home Boards, based on fixed price trading, means that there will be no corresponding increase in BNFL's prices to UK customers.

I am copying this letter to the Prime Minister, members of E(PSP), and Sir Robin Butler.

Yours ever

John

JOHN WAKEHAM

GOV'T MACH: BNK
feb 8

PAY IN CONFIDENCE

File DSG

APY

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 April 1990

Dear Carys,

BNFL: 1990 PAY NEGOTIATIONS

The Prime Minister has seen a copy of the Chief Secretary's letter of 18 April to the Energy Secretary on the BNFL pay negotiations.

The Prime Minister is concerned that any public sector settlement at or above 9% could be damaging to the wider prospects for containing pay costs in the economy.

The Prime Minister has also noted BNFL's record of exceeding pay remits in recent years. Accordingly, the Prime Minister would support your proposal that an offer of 8.25% on basic pay should be made at BNFL only if BNFL believe that a quick settlement on that figure is achievable.

I am copying this to John Neilson (Department of Energy), to the Private Secretaries to members of E(PSP) and to Sonia Phippard (Sir Robin Butler's Office).

Yours ever,

Barry

Barry H. Potter

Miss Carys Evans,
Chief Secretary's Office,
H.M. Treasury.

PAY IN CONFIDENCE

cst.ps/dr/13nl18.4

PAY IN CONFIDENCE

CCPU

Prime Minister?
To note. Any settlements with a cost above 9% on the annual pay bill would be damaging at this stage. Do you wish to write in support of the CST?
BHP
20/4

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Wakeham MP
Secretary of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

18 April 1990

Dear Secretary of State

Yes mt

BNFL: 1990 PAY NEGOTIATIONS

with BP?

Thank you for your letter of 4 April about this year's pay round.

2. John Major wrote to Cecil Parkinson in both 1988 and 1989 stressing the importance of considering the negotiating remits of UKAEA and BNFL in parallel in view of their repercussions on one another. I am disappointed therefore that your letter does not include details of a negotiating strategy for UKAEA including any implications of the proposals for BNFL. I would prefer to hear from you about UKAEA before agreeing to a full remit for BNFL.

3. As regards the proposals for BNFL I think there must be a clearly specified maximum to the remit in the light of BNFL's record of exceeding remits in recent years. I note that you say that BNFL think they may need to go slightly above 9 per cent to clinch a deal. Any settlement at this sort of level would have damaging repercussions elsewhere in the public sector and I think the firm aim should be to reach a settlement covering basic rates and bonuses for BNFL with a full year cost below - and preferably well below - 9 per cent. I would be grateful to have your views on the prospects for this.

4. Turning to the proposal for an opening offer of 8.25 per cent on basic pay, given the need to consider our strategy more comprehensively I would prefer that such an offer is made only if BNFL believe that a quick settlement at or very close to that figure is achievable.

5. Finally, you rightly draw attention to the very severe recruitment and retention difficulties that BNFL face, particularly in the craftsmen grades. I understand however that the overall turnover of BNFL staff is around 10 to 15 per cent. This indicates that BNFL's problems are less severe in some other

areas which would suggest that more might be done to target the pay awards towards the groups where recruitment and retention are most difficult. I wonder whether BNFL have given thought to this?

6. I am copying this letter to the Prime Minister, members of E(PSP) and Sir Robin Butler.

Yours sincerely

Carys Evans

NORMAN LAMONT

approved by the
Chief Secretary and
signed in his absence

GOUTMACH

NorLamont.HK

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cfs

n.b. P.M.
BHP
2574

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5803
Telex 915564 Fax 01-273 5821

Secretary of State

The Rt Hon Norman Lamont MP
Chief Secretary
H M Treasury
Parliament Street
LONDON
SW1P 3AG

17 April 1990

Dear Norman

I read with interest John Wakeham's letter of 4 April about the negotiating remit for BNFL.

My letter of 11 April to Norman Lamont pointed out that, in a changing scene, it now looked most unlikely that we would be able to hold the line in the public sector at about 8.5%. Against that background a BNFL settlement above 8.5% but below 9% would seem the best we could realistically hope for.

I recognise the pressures that BNFL management are under, following Gardner. But I do not see them as constituting a case for settling slightly above 9 per cent, which John seems to envisage, which could have adverse implications for other public sector negotiations currently in play. That said, I accept that BNFL does have recruitment and retention problems with certain small, specialised professional groups. I therefore wonder whether the best way ahead might not be to restrict the overall remit to 8.9% but, following the precedent of the recent CAA settlement, to provide greater headroom for these shortage groups.

I am copying this letter to the Prime Minister, other members of E(PSP) and Sir Robin Butler.

Yours ever

Michael

MICHAEL HOWARD

Employment Department · Training Agency
Health and Safety Executive · ACAS

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cst.ps/2nl22.9/lets

Copy

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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Peter Morrison MP
Minister of State for Energy
Department of Energy
1 Palace Street
London
SW1E 5HE

NBPM
PRG
22/9

22 September 1989

Dear Minister,

BNFL 1989 PAY NEGOTIATIONS

Thank you for your letter of 19 September.

Following your meeting with Kenneth Clarke and Norman Fowler yesterday morning we agreed that BNFL could continue negotiations on non-industrial pay and that BNFL could go up to 8½ per cent, provided that they were certain that this would achieve a settlement, and that the matter would be settled quickly with as little publicity as possible. We also agreed that anything over 7¾ per cent is to be fully financed by additional productivity. In due course I should also be grateful if you could let me know the results of the IPMS ballot.

I am copying this letter to the Prime Minister, Norman Fowler, Kenneth Clarke, Tom King, and to Sir Robin Butler.

Yours sincerely,

P. Walters

pp **NORMAN LAMONT**

[Approved by the Chief Secretary and signed in his absence]

CONT MACU : BNFL , feb 81

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5803
Telex 915564 Fax 01-273 5821

Secretary of State

CCPM.

NBPM at this stage.

PRCG 20/9

The Rt Hon Peter Morrison MP
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

September 20

Dear Peter.

BNFL 1987 PAY NEGOTIATIONS

I am concerned at the proposition in your letter of yesterday to Norman Lamont that BNFL should agree to the IPMS demand for immediate arbitration over their non-industrial staffs' pay claim.

will request if required.

There are clearly several powerful reasons why this claim should be resisted. Arbitration is in principle a much less desirable method of settling disputes than direct negotiations, and should only be contemplated as a last resort. I am far from convinced that BNFL have yet reached that stage.

However, what really concerns me is that it would make Kenneth Clarke's task in holding the line in the ambulance pay dispute very difficult. At a time when the need for moderation in pay has seldom been more pressing, it is essential that public sector organisations must be seen to be acting firmly.

As you recognise there has been very little time indeed to consider your proposition, but I do think at the very least Kenneth Clarke should be consulted urgently.

I am copying this letter to the Prime Minister, Norman Lamont, Tom King and Sir Robin Butler.

Yours ever

NORMAN FOWLER

CONFIDENTIAL

THE RT HON PETER MORRISON MP

Department of Energy
1 Palace Street
London SW1E 5HE
Direct Line 01 238 3159

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

19 September 1989

Dear Norman.

BNFL 1989 PAY NEGOTIATIONS

In the absence of John Wakeham, although I have had a brief word on the telephone with him in Canada, I am writing to put to you BNFL's proposal that their non-industrials' pay claim should be referred to arbitration, so as to avoid extending a very damaging industrial dispute.

As you know, BNFL's final offer of 7.75% on basic pay rates was recommended for acceptance by all but one of the unions involved. The exception is the IPMS (formerly IPCS), which represents most of the professional and supervisory staff at BNFL. They pressed for a higher offer or for arbitration, and then balloted their members and obtained authority for a series of one day strikes, the first of which was held last week and shut down nearly all BNFL operations.

The IPMS are now proposing to step up their action. They are balloting about 200 key staff, withdrawal of whose labour could shut down operations indefinitely, in many cases because the NII's safety requirements for operation could not be met without their presence. They are promising to pay these staff 85% of their normal salaries and have set up a £1 million strike fund for this purpose. The results of this ballot should be available tomorrow night and both they and BNFL's management expect the necessary authority for a selective strike to be obtained. The prospect would then be for a total and indefinite shutdown of BNFL's operations, particularly at Sellafield, from as early as next Friday. BNFL say that apart from costing some £2.5 million a day this action could jeopardize their chances of obtaining important export contracts, in particular the £1.6 billion deal with German utilities which the French could yet snatch away.

Shutdown of Sellafield would also inevitably generate a lot of media attention. It would increase concerns about our future nuclear programme and cause further uncertainties about nuclear costs in the run-up to electricity privatisation.

During the last few days the BNFL Board and senior management have considered urgently what the best method of avoiding an indefinite strike would be. They have already emphasised to their workforce the very damaging effect of strike action, and have also established that there is no viable route for halting the action in the courts. Therefore the choice is between re-opening negotiations with the IPMS and agreeing to put the claim to independent binding arbitration. (They would envisage asking ACAS to nominate an arbitrator). When I saw Christopher Harding this morning, I suggested to him that re-opening negotiations might be less damaging since it would keep BNFL in control, whilst arbitration would not. But he pointed out that the industrial unions have settled and to re-open negotiations with the IPMS would completely undermine the position of the industrial union national officers who conducted their negotiations whilst strengthening the hand of the militants. Christopher believes that to accept arbitration with IPMS (and two other non-industrial unions who have now also requested it) would be less damaging, despite its other risks. For this reason the BNFL preference is to accept arbitration and that it is best done immediately, rather than after an industrial dispute which will be high-profile and costly. IPMS have requested a meeting tomorrow evening, when they will be armed with the ballot results, and BNFL have asked for our agreement to their offering arbitration then, before matters go any further.

I quite understand why the BNFL Board feel like they do. Having discussed the matter with Christopher for an hour earlier today I genuinely believe that from their own particular stand-point arbitration would appear to be the best course of action. However I appreciate that BNFL cannot be taken in isolation and that if we are to agree to their going to arbitration, it can only be after wider considerations have been properly taken into account. And I am sure that you will give me your judgement on where the balance of advantage lies. In view of timescale I must, I am afraid, press for a response by noon tomorrow.

I am copying this to the Prime Minister, Norman Fowler, Tom King and Sir Robin Butler.

PETER MORRISON

cst.ps/10jm29.6/lets

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CCPU

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Spicer Esq MP
Parliamentary Under Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

29th June 1989

Dear Michael,

BNFL 1989 PAY SETTLEMENT

Thank you for your letter of 16 June which informed me of the outcome of BNFL negotiations.

Although I was pleased to learn that BNFL pay has been settled without industrial action I am afraid I cannot altogether welcome a settlement which, for the second year running, exceeds the negotiating remit we set.

I appreciate that Cecil Parkinson will emphasise the need to adhere strongly to ministerial guidelines when he meets the BNFL Board next month; I cannot emphasise enough the importance which I attach to this. If BNFL get away with consistently exceeding the guidelines we set they will cease to think they matter. More generally, it can only make public trading sector settlements that much more difficult to influence.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

GAITMACH: BNFL.
FEB 87

010

cst.ps/15jm13.6/lets

UNCLASSIFIED

CCPM

Treasury Chambers, Parliament Street, SW1P 3AG

NBPM

RRC6
14/6

Michael Spicer Esq MP
Parliamentary Under Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

14 June 1989

Dear Minister,

BNFL PAY NEGOTIATIONS 1989 WILL REQUEST IF REQUIRED

Thank you for your letter of ~~12~~ June concerning BNFL's pay negotiations.

I am most reluctant to extend BNFL's remit, particularly given the possible repercussions on the negotiations for the industrial Civil Service and elsewhere. Nevertheless I am prepared to agree to a settlement of up to 7.5 per cent on average earnings provided BNFL are clear that no further extensions to the remit will be forthcoming, even in the face of industrial action.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours sincerely.

P. Wynne

pp **JOHN MAJOR**

[Approved by the Chief Secretary and signed in his absence]

cst.ps/7jml9.4/lets

UNCLASSIFIED

CCPU

NBPM

PRC6
20/4

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Spicer Esq
Parliamentary Under Secretary of State
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

19 April 1989

Dear Minister,

BNFL AND AEA PAY NEGOTIATIONS 1989

Thank you for your ~~letter~~ will request if required of 13 April on BNFL's proposed negotiating remit and developments at AEA.

I accept that BNFL should be able to negotiate a settlement of up to 7 per cent on basic rates leading to a similar increase in earnings - or slightly less taking account of the one-off payments at Sellafield to buy flexibilities.

As to the opening offer, like you, I would prefer BNFL to start at 5.5 per cent, but if after consultation with BNFL's management you judge that a slightly higher opening offer would lead to a lower final settlement I would be prepared to accept this. In any event, it is important that BNFL do not exceed their remit as they did last year.

Lastly, I look forward to hearing the outcome of your discussions with AEA on their negotiating strategy and their proposed negotiating remit.

I am copying this letter to the Prime Minister, members of E(PSP) and to Sir Robin Butler.

Yours sincerely,

P. Warless

pp JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence]

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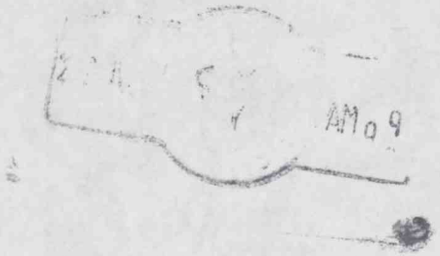

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DSG

10 DOWNING STREET

From the Principal Private Secretary

15 June 1988

BRITISH NUCLEAR FUELS: CAPITAL PROGRAMMES

The Prime Minister has seen your Secretary of State's recent minute about BNFL's THORP project. She has also seen the Chief Secretary's comment in his letter of 7 June to your Secretary of State.

The Prime Minister has noted the disturbing state of affairs described in your Secretary of State's minute and would like to be kept in touch with future developments.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

N. L. Wicks

Stephen Haddrill, Esq.,
Department of Energy.

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012/4208

CONFIDENTIAL

cc: CCBG

Chancellor
FST
Sir Peter Middleton
Mr Anson
Mr Monck
Mr D Moore
Mr Holgate
Mr M Williams
Mr Tyrie

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

7th June 1988

Dear Cecil,

BRITISH NUCLEAR FUELS: CAPITAL PROGRAMMES

Thank you for copying to Nigel Lawson your minute of ~~1~~ 30 June to the Prime Minister.

The THORP project's £200 million overrun on a total capital cost of £1280 million is very serious. We clearly need much more information on the causes of this overrun than BNFL has provided so far. I hope that your officials will keep mine fully informed of the company's assessment of its effects on the company's performance and borrowing, and of the prospects, if any, for scaling it back.

I gather that it will not feed through fully into public expenditure, as BNFL is classified as part of the private sector and as the bulk of its customers are from overseas. But there could be a significant effect on contributions from the CEGB and the SSEB over the next few years which could have an impact on public expenditure prior to privatisation and on sale proceeds.

The overrun could reinforce public doubts about the economics of nuclear power. With this in mind, I hope that it will be possible for the Boards to quantify the costs to them and minimise the effect of this extra burden on their cash flow particularly through offsetting economies in their nuclear power programmes. The net effect can be taken into account in the current Investment and Financing Review.

Yours ever,

John

JOHN MAJOR

GOVT MACH: B.N.F.L. Feb '81

Prime Minister
You did not sign this off.
N.L.W.
14.6

CONFIDENTIAL

Prime Minister
To see, together with the CST's comment attached.
N.L.W
13.6

Prime Minister

Noted MT

BRITISH NUCLEAR FUELS: CAPITAL PROGRAMMES

My predecessor wrote to you in September 1986 about BNFL's capital programmes, and in particular about THORP, on which the Company's recently appointed Chairman, Christopher Harding, had advised of a two year delay. This note is to bring you up-to-date on THORP, on which a further review has just been completed. The review has shown that, contrary to their forecast of 1986, the Company have not been able to hold the project within the original budget of £1280 million. This is extremely disappointing, and I have called in the Chairman and Chief Executive.

They have explained that, throughout last year, the Company re-negotiated all cost-plus contracts with suppliers into fixed-price, or target-price, contracts, with penalties. It also achieved the final freezing of the process design last year following lengthy consultation with the regulatory authorities. Following this, the Board decided on a thorough review of the situation in the light of the firmer information which had become available. As a result of a number of unexpected escalation costs compounded by more rigorous regulatory requirements since the original proposal - eg to improve the design to withstand severe seismic shock - the Company now anticipate that a further £200 million will be necessary to complete the plant design and construction. They are also taking a close look at the sums provided for performance demonstration and bringing

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into operation. They have concluded that the earlier provision of £70 million for the commissioning period was considerably underestimated, and believe that the provision may have to be increased to £200 million. A thorough analysis of the cost and programme for the test and commissioning period is under way. I have asked to see the Company's full review report. I have also asked the Company to let me have an assessment of the effect of these increases on its financial performance, and borrowing requirements. I have left the Chairman in no doubt that the increases should be minimised. He has assured me that they will do all they can to achieve this, and are confident that the final capital cost will not exceed £1480 million. He tells me that the review is rather more encouraging from the technical point of view - there are no significant difficulties which remain to be solved; and THORP will be able to reprocess 7,000t of uranium in its first 10-year period of operation, rather than the 6,000t originally planned. Construction of the main reprocessing building is now almost complete; mechanical installation has started; and most of the plant equipment has been ordered. They have every confidence that the plant, which constitutes about one third of the Company's total capital programme, will be completed in early 1992. All other capital projects are proceeding to time and cost.

Mr Harding is fully aware of the need to maintain the confidence of BNFL's customers, and the Company are embarking on detailed presentations ~~next~~ this month. They have already spoken to CEGB and SSEB. All of their contracts, except some early fixed-price business, allow for full cost recovery. The capital cost increases

above will result in price increases of the order of 10% for customers with cost-related contracts. (Losses on the fixed price contracts will increase by some £25 million, and there will be a charge to 1987/88 provisions.) The Company assure me that these increases will not lead to higher prices than their major competitor, the French company COGEMA, though obviously they have lost some competitive ground. They are also hopeful of securing a good contribution from sales of the extra 1,000t of capacity mentioned above, though no firm orders for this have yet been placed.

They intend to make a formal announcement about the cost increases at the time of their AGM, towards the end of July. They are however preparing a statement for use on a contingent basis from the end of June when overseas customers are to be briefed. This will lay emphasis on the increase in capacity from 6,000tU to 7,000tU, with consequent maintenance of unit capital costs. It will also mention maintenance of the completion date of February 1992.

More encouragingly, the first phase of THORP (fuel receipt and storage facilities) was handed over to the operators on schedule in July 1987 and is now being brought into operation. The first fuel will be placed in the ponds in July.

I am copying this note to Nigel Lawson.

C.P.

Secretary of State for Energy

June 1988

Govt MACHINERY/

SHAREHOLDINGS IN BNFL

FEB 81

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LOY & HD
ce BI

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

10 September 1987

Bernard Ingham spent last weekend at a BNFL seminar at which two particular points of interest arose. One concerns a by pass for Egremont, on which I have sent the attached letter to Alan Bailey, and the other the consequence of the 30th anniversary this year of the Windscale fire.

You may already be aware of the concern of the Chairman of BNFL about the effect on public attitudes to the nuclear industry of any damaging revelations which might flow from publication of the public records which become due for release under the thirty year rule on 1 January 1988. Apparently, BNFL's Chairman, Christopher Harding, is concerned about the co-ordination and the handling of this whole episode and the desirability - as they see it - of ensuring that all the Cabinet, etc., papers on the incident are released at once, before due time as necessary, so that the industry will not be subject to a continuing drip of further revelations over perhaps several years. BNFL say that they do not know what is in the papers, but believe that their contents are not as bad as might be feared. The company would, understandably, be concerned if the papers showed that there had been a cover up of the true level of discharges.

I should be very surprised indeed if there was any possibility of releasing the relevant papers before due time, a precedent which on wider grounds we should avoid. But I know that the Prime Minister would be interested, in view of her long-standing interest in nuclear matters, to have a short note on whether publication of the papers is likely to cause difficulties for the nuclear industry, either on 1 January 1988 or in succeeding years. The Prime Minister is, of course, well aware of the conventions about divulging to Ministers information which relates to the Government of a different Party. She would also be grateful for some assurance that the Department, in consultation with those concerned with the nuclear industry, will be ready on 1 January 1988 with briefing to deal with any presentational difficulties which might arise.

BF

N. L. WICKS

P. L. Gregson, Esq., C.B.,
Department of ~~Trade and Industry~~.
Energy.

CONFIDENTIAL

File LR
LO4AM c
cc Peter Gregson
ccBl

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

10 September 1987

I thought that you and Peter Gregson, to whom I am copying this letter, might like to know of Bernard Ingham's conversation with senior members of BNFL at that company's seminar last weekend.

Bernard tells me that there was a lot of private talk to him during the weekend of the need for the Government explicitly to recognise West Cumbria's constructive approach to nuclear matters. It was suggested to Bernard by BNFL officials that one tangible way of doing this was to give the go ahead for the long-discussed by pass to the small town of Egremont through which a great deal of BNFL traffic passses.

I am, of course, quite unaware of the case for an Egremont by pass, but thought that you may wish to be aware, if you are not already so, of the BNFL aspect.

I am sending a copy of this letter to Peter Gregson.

N. L. WICKS

Sir Alan Bailey, K.C.B.,
Department of Transport.

Prime Minister

If you agree, I will mention the point in §4 to D Tp and that in §5 to D En.

(legitimately) Can we find out exactly what is in N.L.W. ?

1. MR WICKS

2. PRIME MINISTER

Yes please - both MT

NUCLEAR MATTERS

BNFL invited me to another of their seminar weekends last weekend and the following points of interest emerged:

Page 5? MT

1. the BNFL board is desperately anxious that nothing should be done in the privatisation of electricity which makes the nuclear industry appear special - eg the exclusion of nuclear power stations from any privatisation package. I made the point that it would probably be impossible to privatise the South of Scotland Board if nuclear were excluded;

2. nonetheless BNFL does not expect to be included in any privatisation process at this stage and would apparently be content to continue as a rather peculiar PLC;

3. the launching of a geological investigative process leading, it is hoped, to a solution under the Sellafield site - or at least under the sea offshore Sellafield - of low and medium level waste storage is likely to occur at a press conference at which the local authorities announce they have asked BNFL to investigate the possibility;

4. there was a lot of private talk to me during the weekend of the need for the Government explicitly to recognise West Cumbria's constructive approach to nuclear matters. One tangible way of doing this was suggested to me by BNFL officials - to give the go-ahead for the long discussed bypass to the small town of Egremont through which a great deal of BNFL traffic passes. The Mayor of Copeland was particularly anxious that the Government should be seen to identify itself more with West Cumbria - if only through visits to see what has been done for example to refurbish Whitehaven's Georgian town centre;

Fill in one go.

5. it is clear that Christopher Harding, Chairman, is extremely exercised about the implications of the 30th anniversary this year of the Windscale fire. This is on October 10. The demonstrations etc which may accompany the anniversary are the least of his worries. What is of much more concern are:

i) the contents of the Cabinet papers on the fire which come due for release under the 30 year rule on January 1, 1988;

ii) the co-ordination and handling of this whole episode and the desirability - as they see it - of ensuring that all the Cabinet papers on the incident are released at once, before due time as necessary, so that the industry will not be to a continuing drip of further revelations over perhaps several years. BNFL say they do not know what is in the papers but that nods and winks suggest it is not as bad as might be feared. They understandably would be concerned if the papers showed that there had been a cover up of the true level of discharges.

BERNARD INGHAM
7 September 1987

011/2984

PAY IN CONFIDENCE

cc BL

Treasury Chambers, Parliament Street, SW1P 3AG

Alastair Goodlad Esq MP
Parliamentary Under Secretary of State
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

28TH April 1987

Dear Alastair,

NBM.

BNFL PAY

Thank you for your letter of 23 April.

My officials have been told that BNFL intend to proceed with an offer of 4½ per cent on basic pay plus 1¾ per cent self financing, consisting of a savings of 1 per cent from travelling time payments and 1 per cent from subsistence. This means that the overall package is worth no more than 4¼ per cent on average earnings which is less than the 5 per cent I agreed in my letter of 7 April, and which I regard as the maximum acceptable.

If a settlement is secured on this basis then presentation will be important. BNFL need, therefore, to emphasise the average earnings effect. We have also to consider the effect of this on UKAEA industrial pay about which I will reply separately.

If these proposals are rejected at the meetings on 27 April and 1 May I would be grateful to be consulted before BNFL make any further revisions to them.

I am copying this letter to the Prime Minister, E(PSP) members and Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

GOVT MACH : BNFL FRD 81.

cc/BG.

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3390
Switchboard 01-211 3000

PARLIAMENTARY UNDER
SECRETARY OF STATE

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 April 1987

NBPM

Dear John.

You asked to be kept in touch with progress on BNFL pay, and to be consulted if the company proposed to revise their initial offer of 4% on basic pay.

You will wish to know that the unions have rejected the package the company have put forward which, as you will recall, included a separate proposal to increase basic rates in return for agreement to changes in the pay structure.

Further negotiating meetings are to be held on 27 April with the industrials and 1 May with the non-industrials. At these meetings BNFL expect to move towards the final position I outlined in my letter of 2 April, of 5% on basic rates plus a self-financing 2% in return for changes to the pay structure. They will endeavour to settle within these limits which would in total add no more than 5% to average earnings.

I am copying this letter to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

Yours ever,

ALASTAIR GOODLAD

CC BG

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

NBPM.

Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

30 September 1986

BNFL CAPITAL PROGRAMMES

Thank you for copying to me your minute of ~~12~~ 30 September to the Prime Minister.

You ask about the availability of storage for spent fuel in the early 1990s in view of the delay to THORP and the need for contingency arrangements in case of delay to the Magnox projects.

The risks to nuclear generation as a result of any delay to BNFL's revised programmes arises principally from the tight timetables for the key Magnox projects including the EP1 encapsulation plant. These must be completed on time in 1990.

BNFL are already taking steps to ensure that neither the revised Magnox construction programmes nor the recent reprocessing difficulties lead to any cessation in Magnox generation. They have decided that a new pond must be constructed to receive fuel by 1990. This will be identical to the THORP pond presently under construction so that the regulatory process can be minimised and recent construction experience applied. This pond will be used to store AGR fuel, enabling Pond 5 to be devoted mainly to Magnox fuel.

The question of whether any further action is needed to accommodate any delay to the critical Magnox projects beyond the revised programme dates is presently under discussion between the Company and the Boards. On present expectations, a delay of some months to the revised Magnox programmes could be accommodated but beyond that there could be an impact on generation. I appreciate that in these circumstances the construction of further pond storage might appear desirable and this is certainly feasible. However, we must bear in mind that additional work would stretch BNFL's resources even further, perhaps endangering the key programmes, and would add to nuclear generation costs. For these reasons the Company do not presently judge that the construction of further additional capacity would be sensible.

SECRETARY OF STATE FOR ENERGY

The Company do not judge that the two year delay to THORP should endanger AGR generation. They believe the proposed new pond should ensure that they can continue to receive AGR fuel until 1994 although the Generating Boards have suggested the ponds could be full a little earlier and that the need for additional storage capacity cannot be ruled out at this stage.

The receipt and storage facility presently being built as part of the THORP complex is on time for completion next year and will accommodate all overseas fuel arisings under the THORP contracts.

We shall, of course, keep BNFL's progress under close review and I have asked my officials to keep yours informed.

I am copying this to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nigel Lawson, Nicholas Ridley, Malcolm Rifkind and Sir Robert Armstrong.

PETER WALKER

GOVT MACH BNFL Feb 81.

CONFIDENTIAL

BM

file

bc BG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 September 1986

Dear Geoff,

The Prime Minister was grateful for the full description of the position of the THORP plant set out in your Secretary of State's minute of 4 September. She agrees that this is a very disappointing and regrettable story. She, and no doubt other colleagues, will be ready as necessary to help in the task of reassuring BNFL's customers.

I am copying this letter to the Private Secretaries to the Lord President, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for the Environment and Scotland, the Chief Secretary, HM Treasury and to Sir Robert Armstrong.

Yours,

David.

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy

CONFIDENTIAL

BM

10 DOWNING STREET

Prime Minister

Agree to thank Mr Walker for his full report on this problem, and to say that you and no doubt other colleagues will be ready, if necessary, to help reassure BNFL's customers?

DRN
12/9

Yes

008/2762

010

CCBG

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 12 September 1986

PRIME MINISTER

BNFL: CAPITAL PROGRAMMES

I share Peter Walker's concern about progress with British Nuclear Fuels' capital programme. It is helpful to have his report of 4 September, and I support him in all the action he has been taking.

2 It is disappointing that the company was initially less than frank about the delay. I agree that public disclosure is now vital to forestall rumours. Nevertheless, coupled with the poor financial results of 1985-86, it is bound to create a bad impression.

3 I draw two conclusions. First, we must ensure that BNFL reports its affairs more accurately and promptly. I am pleased to see that Peter has already put arrangements in hand.

4 Second, we must ensure that BNFL is able to service the nuclear industry adequately. It would be helpful to have a report on the availability of storage facilities for spent fuel in the early 1990's, when THORP will be unable to reprocess the fuel waiting in the receipt and handling facility. We also need to consider whether we should have contingency plans for dealing with spent magnox fuel in case the refurbishment of the dissolver is further delayed. It would clearly be folly not to take these simple precautions now.

5 Copies of this minute go to Willie Whitelaw, Geoffrey Howe, Nigel Lawson, Nicholas Ridley, Malcolm Rifkind, Peter Walker and Sir Robert Armstrong.

Jim Rutter (Private Secretary)

pp JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence)

CONFIDENTIAL

GOLT MACH

BNFL

2/81

PRIME MINISTER 9 September 1986

BNFL - CAPITAL PROGRAMMES

For managers of large difficult projects there can come a time when the firmly established targets and deadlines are so manifestly unrealistic that they no longer serve the purpose of motivating, and guiding cohesive action and sensible decision making. Clearly that point has been reached for BNFL's THORP plant for reprocessing spent fuel from AGRs and light water reactors.

BNFL's management team under the new leadership of Christoper Harding and Neville Chamberlain are right to re-establish their project targets on a realistic new basis, and to give the most careful attention to mitigating the commercial damage and any adverse public reaction.

Recommendation

We recommend that you thank Peter Walker for his comprehensive paper on the problem and its handling.

The Japanese, who are the principal export customers for the THORP plant, set much store by mutual confidence in long term relationships and by leadership from the top. You could suggest to Peter Walker that, subject to his advice, you would be ready to demonstrate the Government's confidence in BNFL's capability and commitment to fulfil the revised plan, for example by writing to Mr Nakasone at the appropriate time.

JOHN WYBREW

GOVT MACH: BNFI Feb 81

CCBG

OIO

Prime Minister

BRITISH NUCLEAR FUELS: CAPITAL PROGRAMMES

As you will be aware BNFL has one of the most extensive capital programmes in Europe. This principally involves THORP and plants required to manage wastes arising from the reprocessing of Magnox fuel. All this work was due for completion by 1990. The Magnox plants are essential if reprocessing is to continue beyond 1990 and BNFL are publicly committed to THORP by that date.

I have repeatedly emphasised to BNFL the crucial importance of completing this work to time and cost. With BNFL's major project management tasks in mind, I appointed Bill Scott, who had considerable project experience with Shell, to the Board as a non-executive. We also asked the Company to produce quarterly reports on the project and to cover progress in the Annual Corporate Plan. We have pressed the Company on any problem identified in these reports. The then Chairman Con Allday and his deputy Tatlock assured us, however, on several occasions that the programme was on course. Towards the end of last year our monitoring suggested that major problems were beginning to emerge and I asked Alastair Goodlad to call for a full presentation. He reported to me that Allday had explained in detail how the difficulties were being managed and had again expressed confidence that there was some room for manoeuvre and lost time could be recovered.

However, we remained concerned about the pressure arising from the totality of the projects at Sellafield and when, early this year, I appointed Christopher Harding as Chairman, with a new management team, I asked him to review all programmes. He has just advised me of his conclusions. He is clear that BNFL cannot now complete THORP and the Magnox related work by 1990 and has decided that the Magnox programme must have the first priority. He has put the delay to THORP at two years.

This is a most serious situation. The news will damage BNFL and could injure the reputation of the industry as a whole. I have asked Christopher Harding to comment on Allday's recent categorical assurances that the programme was on course and for his views on the reasons for the delay.

I have also pressed him for an assurance of his confidence in the latest review; for a thorough explanation of the steps that have been taken to ensure there is no further delay; and a detailed analysis of the consequences.

He has now reported and I enclose a copy of his analysis. He assures me that this is supported by exhaustive studies of each project by the new team.

A number of factors appear to have contributed to the delays. In the light of increasing public concern about the environmental aspects of nuclear power, regulatory requirements and procedures have inevitably tightened, increasing the work required on a number of BNFL's projects. Partly because of the environmental pressures, the scale of work on the Magnox programme has also increased over the last two years and stretched the Company's resources. Recent experience on other major projects has also shown that much more time is needed for testing and commissioning. BNFL believe that an extra year should be allowed for this stage.

Christopher Harding has also said to me privately that he feels the previous top management were so determined to complete the projects on time that junior staff, although aware of the difficulties, were reluctant to express their concerns. In consequence, problems were not identified and tackled as they should have been, and staff motivation was low.

You wil see from his note that substantial changes have been made to the project to ensure it is completed to the new timetable. BNFL have already persuaded the main civil contractor to put more men on the job and believe further resources would now be an impediment. Important management changes have also been initiated. The project team has been strengthened; a Board member and audit team will be monitoring progress independently of the project management; and the competence of key managers is being reviewed. I have made clear to Christopher Harding that I will support him if he feels that radical management changes are required and have encouraged him to bring in fresh blood if necessary.

The financial consequences are covered in BNFL's note. The Company has first class cost plus contracts with most of its customers and the impact on profits and cash flow is therefore relatively limited. If these contracts are enforced profitability over the project lifetime could be slightly increased. However, BNFL expect that some re-negotiation may be necessary to maintain goodwill possibly leading to a reduction in total profits by few percentage points.

I am rather more concerned about the impact on customer's confidence. It is vital to BNFL's long term future that they win business in THORP beyond 2000 as their Magnox business will then be winding down. Contracts are signed many years in advance and BNFL have already been speaking to potential customers. The market is, however, weak and we can expect the French, who already have an operational plant, to compete strongly. Delay to THORP could, of course, also damage their standing in other markets for fuel cycle services.

Initial soundings have suggested that, so long as BNFL can complete the facilities for the receipt and storage of fuel on time and take fuel, customers are likely to be more concerned about the impact on

costs rather than the delay itself. BNFL are confident that the receipt and storage facilities are on time for completion in 1987 and that they will be able to take and store fuel. They will, however, have to re-apply for planning permission from Copeland Council. The present planning approval for fuel storage is dependent on reprocessing in THORP starting in 1990. Informally the local authority have indicated that there should be no difficulty. The impact on the economy of the area from an adverse decision would be considerable. Opponents of the project will, however, put pressure on the Council and perhaps call for a public inquiry.

Clearly this issue requires the most careful handling. There is little flexibility over timing. BNFL have told their customers and the local authority in confidence but the news may again begin to emerge soon. BNFL wish to keep the initiative and break the story themselves. Christopher Harding has also made clear that the situation must be reflected in the Annual Report and Accounts which this year is due for publication in the second half of September. His objective is to get the news out at the press conference which will be held after the AGM.

BNFL's overall presentational aim will be to stress that the project is still very profitable, and that the plant will be largely completed by 1990. This is an important point in view of our positive comments to the Select Committee on the Environment on the economics.

They will also emphasise that the delay reflects the need to commit resources to other plants required for environmental protection and to meet higher regulatory standards. The fact that they will spend more time on testing, partly with the environment in mind, is also a positive point. They will discuss these aspects of the presentation with the regulatory authorities.

I am copying this letter to Willie Whitelaw, Geoffrey Howe, Nigel Lawson, Nicholas Ridley, Malcolm Rifkind and John MacGregor, as well as to Sir Robert Armstrong.

pp **Secretary of State for Energy**

(Approved by the Secretary of State and signed in his absence)

4 September 1986

AUTHORISED DISTRIBUTION ONLY

REVIEW OF THE THERMAL OXIDE REPROCESSING PLANT AT SELLAFIELD
SUBMISSION BY BNFL TO THE DEPARTMENT OF ENERGY, AUGUST 1986

INTRODUCTION

1 A new top management took office in BNFL in April this year, and, recognising the importance of the many large engineering projects at Sellafield and the tightness of their programme as highlighted in discussions with the Department on the 1985 Company Plan, a wide ranging review of these projects was instituted. This statement summarises the outcome of the review of the Thermal Oxide Reprocessing Plant (THORP).

2 THORP is a facility to take spent fuel from Advanced Gas Cooled Reactors (AGR) and LightWater Reactors (LWR), to store it until it can be reprocessed and then process it into its constituent plutonium, recyclable uranium, and active waste products. The previously reported time frame for the project envisaged completion of the receipt and handling facility in mid 1987 and completion of the chemical processing plant in 1990. Site opening up and foundation work started in 1984 and the main building and civil engineering work in mid 1985, already six months behind schedule, owing to delays mainly in obtaining the necessary clearances from the Nuclear Installations Inspectorate. At the time, the Company felt that this delay could be recovered by weather-sealing parts of the building to allow access by the mechanical equipment installers on programme. It was on this basis that assurances on the programme were given to the Department and the BNFL Board last winter.

3 The present review has re-examined the whole project and while confirming that the receipt and fuel handling facility should be completed and in operation by the end of 1987, and confirming the basis of the earlier view on recovery of the early building schedule, has been unable to endorse the earlier programme with respect to completion of the mechanical installation and commissioning schedules, following the experience on other projects at Sellafield in particular the new Fuel Handling Plant. In short, the tightest programme to which the Company could commit itself for the THORP project envisages a two year delay in bringing the Chemical Separation Facility into its first operation, that is to the end of 1992.

CHANGES TO PROGRAMME

4 The Fuel Receipt and Handling Facility, which enables customers' fuel to be accepted and stored at Sellafield, will be completed next year and will be brought into operation by the end of the year. This facility is a few months late but is within the budget.

5 The main plant, the Head End and Chemical Separation Plant, which will actually reprocess the stored fuel into the waste products, the re-usable uranium and the .../

plutonium is running about one year late, having started six months late, and being subject to contractor problems with industrial relations and difficulties over the complexity of the building designs. The impact of this early delay should, in large part, be recovered by weather-sealing parts of the building so as to provide phased access for mechanical equipment installation prior to completion of the total building shell. However, a review of the programme for mechanical equipment procurement and installation indicates that this will be spread over a one year longer period than originally programmed. Also, experience with the commissioning of the new fuel handling plant and SIXEP at Sellafield, indicates that it is necessary to allow extra time for testing of the new plant facilities before active material is introduced to them. It should be noted that these are the first nuclear plants of such scope and complexity to have been commissioned by BNFL for many years. The overall integrated programme now indicates active operation (first stage processing of commercial, active fuel) at the end of 1992, some two years later than indicated in the previous programme.

6. Of the original total budget of £1280M for the THORP Head End and Chemical Separation Plant, there was a total of £248M contingency. After allowing for additional costs already identified and the additional pre-hand-over testing referred to above, there remains £112M contingency. The Company believes it can contain the project within the original total.

REASONS FOR THE CHANGES

7. The 1983 beach contamination incident led to reappraisals of the effluent and waste management systems at Sellafield. New commitments by the Company on discharge levels to the Irish Sea and the resultant urgent engineering projects has, during the last two years, diverted attention and resources from peripheral systems essential to THORP. The whole of the Sellafield site development has to be seen as an integrated project whereby new plant, such as THORP, can only be brought on steam at the same time as, for example, its waste and effluent control systems. These in turn have to dovetail in to the development of the effluent system in support of Magnox reprocessing and the committed reduction in discharge levels. The Company does not believe that it can sacrifice Magnox reprocessing or its commitment to reduce discharge limits in return for what by now might prove to be modest recouping of the THORP programme. It is considered that flooding THORP with additional resources will now not result in significant shortening of the programme since the Company believes that the project may be approaching 'saturation'.

8. There have been changes in standards and approvals procedures by the regulatory authorities (NII). A change of inspector late in 1983 led to the imposition of a.../

method of working which is quite different from that applied previously. This inspector insists on detailed safety reports and approvals before allowing construction work to proceed rather than rely on safety clearance before operation. This has significantly increased the design and safety assessment work before on-site construction can commence and has therefore delayed on-site work. In addition, the design seismic criterion of 0.25g which represents an earthquake, in some respects, significantly more severe than the recent examples in Mexico City and Colombia, was imposed on BNFL following its acceptance for Sizewell B and the onerous implications of this criteria have only emerged progressively. The present review assumes that no further changes in standards imposed by the Regulatory Authorities.

9 There has been a recognition, especially after construction experience with Fuel Handling Plant and SIXEP and more recently the partly completed Windscale Vitrification Plant, of the difficulties in achieving satisfactory standards for the prefabrication of vessels and mechanical installation work on site. The UK industry does not have an unlimited number of suitable suppliers from which the project can draw.

10 Also, after the recent experience on the Fuel Handling Plant and SIXEP the time needed for an extensive pre-commissioning testing and an inactive commissioning programme before active material is introduced has now been more fully recognised. This part of the programme cannot be planned in detail but the Company recognises that sufficient time must be allowed, before the plant becomes active, to ensure its operational performance.

FINANCIAL IMPLICATIONS OF THE REVISED PROGRAMME

11 A two year delay in THORP reprocessing could lead to a maximum reduction in the net present value (NPV) of the project to BNFL of £34M. The extent to which this is ameliorated will depend on commercial discussions with the customers. However, taking into account the increased storage involved in the delay, if strict adherence to contract could be held, there would be an overall increase in profit to BNFL in current money value of £15M on the basis of £380M. This is after making increased provisions for the Company's losses of £4M in respect of fixed price reprocessing contracts.

12 The overall cash outflow for the THORP project is not significantly affected by the revised programme since the bulk of the pattern and timing of capital spend (and therefore of advanced payments from customers) is not greatly distorted. In the period 1991 to 1993 cash inflow is reduced by approximately £200M (but recovered in later years) as a result of the delay in the receipt of income and this increases the Company's overall funding requirement in this period . Because of this, the Company's peak borrowing requirement will be increased by £200M (in 1993).

The Company is consciousthat any delays to its programmes can have a potential adverse effect on its customers and soundings have been taken on their perception of the change to the THORP programme.

OTHER IMPLICATIONS OF THE REVISED PROGRAMME

13. The customers are concerned principally with ensuring that they can deliver their fuel to Sellafield on time, which they can, and that the total costs of THORP will remain within budget,which it still is. Customers have not expressed particular concern on the possibility that spent fuel will not actually be reprocessed until two years later than originally expected. Although there have been reservations expressed about the length of time that AGR fuel can be stored under water, the suggested delay will not affect the continued operation of the Home Boards AGRs. No customer is in early need of plutonium from THORP. Customer confidence in BNFL is, however, at risk, especially since the cost consequences for THORP customers in the low active waste and effluent treatment facilities are still being quantified and there is some apprehension among customers on this matter.

14. Other projects at Sellafield related to sea discharges and waste encapsulation plant have necessarily to keep pace with THORP. The revised programme relieves what was amounting to untenable pressures on the timescale of these projects, increasing the confidence that the Company can have in meeting its obligations to Magnox reprocessing and liquid effluent discharge levels.

15. It was a condition of the planning consent for the THORP Receipt and Handling Facility, that Head End and Chemical Separation Plant should be operational by the end of`1990 . The purpose of this condition was to ensure that the Receipt and Handling Facility would not become a permanent storage facility for overseas spent fuel. Provisional soundings in the local planning authority indicate that they regard this condition as no longer necessary and would support a resubmission calling for its removal. (NB. The Receipt and Handling Facility was not the subject of the Windscale Inquiry).

PRESENTATION OF THE REVISION TO PROGRAMME

16. The Company appreciates the political sensitivity of the THORP project, and realises that any delay puts its credibility at risk. Very careful handling of the story in the public domain will be required. It is proposed, in any public statement, to stress the timely completion of the Fuel Receipt and Handling Facility, the maintenance of the Company's commitment to discharge levels, the maintenance of THORP within budget, and that the delay is in large part due to additional testing of the systems prior to active commissioning to demonstrate satisfactory performance in operation in the present climate.

17. The Company is considering a plan for presenting the revision to the THORP programme in the media. This will be initiated on agreement with the Department. It must be stressed, however, that already the nature of the revision is known to a large number of people including customers.

MEASURES TO ENSURE MAINTENANCE OF THE REVISED PROGRAMME

18. A new top organisation has been introduced into the Company, with a senior Board Member (Dr. W.L. Wilkinson) now responsible for all aspects of reprocessing and waste management to ensure the necessary integration of programmes and the optimum deployment of resources.

19. Earlier this year, the project management team was strengthened with the appointment, as a Deputy to the Director of Reprocessing Engineering Division, of a younger man with both Sellafield and outside project experience. High calibre senior staff with suitable project experience have been, and are being, sought externally to strengthen the existing team, which in terms of overall numbers are generally adequate for the critical projects. More effective use is being made of external consulting and design engineering resources on contract. As a management policy, the concept of personal accountability by the project managers is being reinforced.

20. A separate Board Member has been commissioned to set up an independent monitoring and auditing system within the Company to check technical progress against project programmes and expenditure; such a system will be in existence by the end of 1986.

21. A personnel audit is being undertaken within the relevant parts of the Company to review whether the best people are in the key positions. The importance of achieving an optimum match of available resources to project requirements is fully recognised and the Company Executive Directors will take whatever managerial action is necessary.

22. There are special difficulties at Sellafield due to the political sensitivity of the project, the relative remoteness of the area and local recruitment conditions. BNFL is working closely with the contractors and trade unions to ensure smooth industrial relations and effective working practices.

23. The Company is also working to ensure that the experience gained and the techniques developed on the earlier projects, in particular the Windscale Vitrification Plant and the Fuel Handling Plant, is being passed on to those responsible for the relevant areas in the THORP project.

CONCLUSION

24. A delay to the main part of the THORP project, the Chemical Separation Plant is now inevitable. The Company is taking all actions open to it to contain the delay, to ensure that there is no further deterioration in the programme, to maintain the cost of the project within the existing budget, and to manage the presentation of the delay to minimise adverse impacts.

GOVT - MACH Feb 81

BNFL

010

CCBG.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Prime Minister 4
DRS
20/5

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

20 May 1986

BNFL PAY

You will wish to be aware that BNFL offered 6% to the industrial unions on 14 May and the unions have undertaken to recommend it to their members. The offer is worth about 5.6% on average earnings. Assuming ~~it is~~ accepted, which we should know before the end of the month, BNFL will move ahead quickly with their discussions on productivity improvements.

The Company meet the staff on 22 May and intend to make an identical final offer.

I am copying this to the Prime Minister, members of E(PSP) and to Sir Robert Armstrong.

PETER WALKER

CC BG.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

NBPM

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

14 May 1986

BNFL PAY

WITH ON?

Thank you for your letter of 12 May.

I cannot accept that it is realistic to expect BNFL to secure a settlement with their industrials at 5.75%. The offer to the Civil Service has created a strong expectation of similar settlements elsewhere in the public sector, and we cannot ignore that. It is reinforced by the expectation that the Civil Service industrial unions will also be offered 6%, a point which BNFL's industrials have already mentioned to the Company. BNFL have made clear that an offer of 5.75% would be rejected outright and could lead to a ballot for industrial action.

As I explained in my earlier letter BNFL believe that a quick settlement is essential to enable them to make progress towards securing significant productivity gains. The Company have told my officials that they do not intend to buy out outdated working practices. The gains will be shared with the workforce by a reduction in total working hours. The figures in my last letter gave the net benefit to the Company.

However, I am prepared to ask the Company to reach a settlement at no more than 6% which is worth less than 5.75% on earnings and to use their best endeavour to stop short of this if possible. I shall be advising the Company accordingly in time for their meeting on Thursday.

I am copying this to the Prime Minister, E(PSP) members and Sir Robert Armstrong.

PETER WALKER

006/2770

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 3QJ

NBPM

12 May 1986

Dear Peter,

BNFL PAY

WILL REQUEST IF REQUIRED

Thank you for your letter of 2 May.

I understand that BNFL's meeting with its non-industrial unions was in fact held on 7 May, rather than 8 May, and that BNFL made an offer worth 5.75 per cent on rates. However, as you say, it is the industrials who are in the lead in the negotiations and we should focus on the meeting scheduled with their unions for 15 May.

BNFL seek authority to offer a 6.25 per cent increase in basic rates on the grounds that they cannot expect to conclude a settlement below the Civil Service figure. I think that this is a specious argument. The pay links between BNFL and the Civil Service were broken some time ago and BNFL have received higher settlements than the Civil Service for the last five years. Pay at BNFL should depend upon the recruitment and retention situation and I cannot accept that Civil Service pay settlements establish a floor for BNFL workers. Indeed I am anxious to avoid any impression that the Civil Service settlement has established a floor for the rest of the public sector. This year's Civil Service settlement was related to the specific circumstances affecting this group and there is no such read-across to other public sector employees.

As far as BNFL is concerned I am not convinced that we should authorise an increase in basic rates over 5.75 per cent. There is no general recruitment and retention problem and inflation is falling rapidly. I note what you say about the

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restructuring proposals but I understand that discussions with the unions about them have only just begun and are likely to be lengthy. There must be some doubt whether BNFL will achieve union agreement to these changes without some"buying-out" payment and I am therefore doubtful whether a generous basic pay settlement will help achieve the restructuring.

There is also the effect on UKAEA staff to consider. As you know BNFL industrials have a pay lead over AEA's industrials and the unions at AEA are seeking to narrow this gap. It would be unrealistic to expect the AEA industrials to accept less than BNFL and so a 6.25 per cent offer to BNFL will fairly inevitably require a similar offer to AEA's industrials in due course. For all these reasons I believe that we should ask BNFL to stand firm on a 5.75 per cent increase in basic rates on 15 May and indicate to the unions that this is their final offer.

I am copying to the Prime Minister, E(PSP) members and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

016

CC BG

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Rt Hon John MacGregor MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

2 May 1986

Dear John.

BNFL PAY

I am writing to set out BNFL's strategy for handling their meetings with the staff unions on 7 May and with the industrials on 15 May.

As you are aware BNFL's opening offer to the industrials of 5.3% on rates was firmly rejected. Their more recent offer of 5.5% to the staff was similarly turned down.

BNFL have recently opened negotiations with the industrial unions on a major restructuring of the working week. If achieved, this could bring major productivity gains, effectively financing the increase in the pay bill this year.

Restructuring would involve agreement by the Company to a 35-hour working week in exchange for the abolition of tea breaks and other changes, including the abolition of overtime payments for managers. In order to take their tea breaks the large number of workers in radioactive areas must pass through the changeroom procedures. These are very time consuming. The package as a whole could save about 650 jobs, more than offsetting the increases in manpower needed shortly at Sellafield as a result of the planned expansion of the facilities. The Company put the direct savings at £7m per annum. A further £3m should be added to this because there would be savings in the number of ancilliary staff and services such as safety monitoring of staff in radioactive areas. Infrastructure savings as a result of reduced numbers could add a further £5m. BNFL do not intend to offer any financial inducement to bring in these changes.

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In order to create the right climate for a successful conclusion to these talks BNFL believe it is essential to achieve an early and negotiated pay settlement. They judge that such an agreement will not be achieved at less than 6.25% on rates and wish to have the freedom to negotiate up to this level when they next meet the industrials. This is equivalent to about 5.85% on average earnings. Any such offer would be made only on the understanding that it was final and would be withdrawn if not accepted. At the earlier meeting with the staff BNFL would make an interim offer of about 5.9% in order to keep these negotiations in play with a view to settling finally at the same level as agreed with the industrials.

I believe this is a sensible strategy. In the light of the offer to the Civil Service we cannot expect BNFL to achieve a settlement at below 6% and a small increase on this is I believe justified given the potential productivity benefits. The cost to the pay bill of an extra 0.5% above last year's level of 5.75% is about £1m. It would make no sense to jeopardise productivity gains of perhaps £10m per annum for a saving of this size.

PETER WALKER

NBPM
09
27/4 CC NO

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

25 April 1984

Dear Michael

Thank you for your letter of 9 April about BNFL's pre-1971 waste. You will have seen the replies from other colleagues. I am disappointed that you are the only one who felt unable to fall in with my proposals.

It would be a nuisance to have to refer this matter back to the Prime Minister yet again following the E Committee discussion last year and subsequent correspondence. May I therefore suggest that we meet with Peter Walker and Patrick Jenkin to try to see whether we can reach common ground. I am only too conscious that failure to solve this issue could be presented in a most disadvantageous way to critics of the Government's policies on both military and civil nuclear matters.

A copy goes to the Prime Minister, to the Secretaries of State for Energy and the Environment, and to Sir Robert Armstrong.

Yours ever

Peter

PETER REES

ECNO

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 20/17/7

9th April 1984

nbpm
26/4

attached

Requested for MT

Dear Peter

BNFL: PRE-1971 WASTE

Thank you for your letter of 16th March. will request if required

When we discussed this issue at E Committee last March, I said that if Ministers decided to assume responsibility for the costs under discussion we would do so because of policy towards BNFL and the desire to privatise the company. I added that these were not matters of concern to the Ministry of Defence and that the Defence Budget should not be burdened with any costs resulting from them. I remain of that view.

If the Government had taken no action the liability for disposing of these wastes would have rested with BNFL, with serious effects on the company's viability and the prospects of privatisation. It is abundantly clear from the paper which E discussed and from the minutes of the meeting that it was in order to avoid these effects that the proposal to take on ultimate liability was put forward and accepted. The decision (which you quote) not to confine the Government's contribution to the amount needed to keep BNFL solvent is entirely consistent with this: while such limited assistance would

The Rt Hon Peter Rees QC MP

CONFIDENTIAL

have protected the company's financial position (at least to the extent of avoiding insolvency) it would have made privatisation impossible.

In short, the objective of our action was to maintain BNFL's commercial viability and protect the prospects of privatisation. I do not see how that can be classified as other than industrial support for which I have no Departmental responsibility and cannot therefore take on budgetary liability.

Yours ever

Michael Heseltine

Copy to Secretaries of State for Energy, Environment and Sir Robert Armstrong.

Copy to: No 10.

cc Chancellor
Financial Secretary
Sir P Middleton
Mr Bailey
Mr Robson
Mr Monck
Mr Burgner
Mr Judd
Mr Scholar
Mr Kitcatt
Mr Hopkinson
Mr Allwood
Mr Matthews
Mr S Webb

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

16 March 1984

Dear Michael

BNFL: PRE-1971 WASTE

Last year, E Committee agreed that the Government should accept the ultimate liability for the costs of dealing with nuclear waste and plant acquired by British Nuclear Fuels Limited on its formation in 1971 (E)83(3rd Meeting). It was left for you and Peter Walker to agree with my attribution to public expenditure programmes and the extent, if any, to which programmes might be increased in consequence.

Our officials have subsequently examined the legal and administrative factors involved. I attach a note of their conclusions, which also records the views of Departments. Decisions on the programme or programme to which expenditure should fall hinges around the purpose for which we think it is entitled. There are two choices:

a. to see the expenditure as intended to protect BNFL's commercial and financial position. That view would point to attributing expenditure to the Department of Energy programme for industrial support;

b. to see the expenditure as covering residual costs from past expenditure programmes. This view would point to allocating expenditure to the Defence and Energy (UKAEA) programmes in proportion to their shares of the original waste.

My own analysis points clearly to chosing the second option. It is consistent with the established principle that the "polluter pays" which is important to the Government in many other fields. I quite understand your point of view on MOD's legal and contractual liability but that does not prevent you from covering costs properly

attributable to previous defence programmes. You have often urged - rightly - that it is not MOD's business to engage in industrial support through its procurement policies; it is therefore difficult to argue that Government programmes for industrial support should bear costs resulting from nuclear defence programmes.

I should also find it very difficult to see how the first option could be consistent with the view colleagues reached in E Committee last year. To pay grants to sustain BNFL's commercial and financial liability would imply that we really expected the Company to bear all these costs itself; and that we are supporting it only to the extent it was not able to do so from profit. But the Prime Minister made quite clear (her Private Secretary's letter of 1 July) that there was no suggestion that the Government's liability should be confined to that part of the cost which could not be met from BNFL's profits.

The presentational aspects are more for other colleagues than for me. But in view of recent events at Sellafield, it would plainly be very difficult for the Government to seek the primary legislation required in order to pay industrial support grant to BNFL under Option A. Picking up the safety costs of previous Departmental programmes under Option B could be presented to Parliament in a more low-key and positive way; legislation would not be required.

I realise that the sums involved are not negligible, and that you would doubtless prefer to devote them to other defence purposes. Nevertheless, the estimated costs are modest in comparison with the size of your overall programme building up to only some 0.25 per cent of the annual defence budget over a period of time. I would hope therefore that you can agree to absorb the costs within your existing programme totals. As well as avoiding increases in overall public expenditure, this would carry presentational advantage we should be able to say that these costs were part of ordinary departmental expenditure and not, for example, the result of any sudden crises at Sellafield.

Nigel Lawson agreed, when Secretary of State for Energy that the UKAEA should be able to absorb their share of the costs from their existing PES programme (depending on financing methods). The current review of the Authority suggests that remains feasible.

I would be very happy to meet to discuss this issue with you and Peter Walker and perhaps other interested colleagues. But the case for viewing these costs as confirmation of previous expenditure programmes is now so strong as to make me hope we can settle it quickly and efficiently in correspondence.

A copy of this letter goes to Peter Walker, Patrick Jenkin and to Sir Robert Armstrong.

Yours ever Peter

PETER REES

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 March 1984

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Dear Secretary of State,

BNFL PAY

You wrote to me on 5 March about the BNFL pay negotiations.

As I read it, BNFL are aiming for a fifteen-month settlement below the rate of inflation on basic rates - up to 5.1 per cent on the current RPI figures - which would be worth around 4¼ per cent on average earnings; plus a lump sum worth slightly over 1 per cent on earnings as a cash payment to cover the extension of the settlement to fifteen months together with the prospect of a new self-financing productivity scheme, triggered by achievement but payable in part at least on a scale related to profits.

I have had very little time to consider these proposals but my initial reaction is that the offer is too high.

I agree that if we were to ignore the productivity scheme the increase in average earnings over fifteen months would be similar to the figure which has already been offered to the gas industry manuals and the coal miners. But the increase in basic rates would be significantly above that offered to - and rejected by - the gas industry manuals and substantially above the UKAEA manual workers' settlement of 4.9 per cent over 18 months. I suspect that the 1 per cent lump sum would also create presentational difficulties.

However, I have still stronger reservations on the merits of the offer. As you know, a recent consultants' report found that most BNFL employees were paid comfortably above the median for high technology firms. I accept that individual posts or sites may

merit higher pay than at present on recruitment or retention grounds but that can be no justification for the substantial increases in pay which BNFL are proposing for all their white-collar employees. Moreover I would have grave doubts about the public acceptability of a settlement of this size for a company whose safety record had so recently been called into question.

In these circumstances, I hope you will feel able to advise BNFL to set their sights much lower - at least to the level of the settlement with the UKAEA manuals.

Finally, while I agree that a new productivity scheme should not be ruled out at this stage, I too would not want any commitment to be made. I have considerable reservations about Con Allday's ideas that the scheme, even if triggered by achievement, should be related in part to profits when they are so dependent on BNFL's near-monopoly position and it must in any case be consistent with the need to bring BNFL pay into line with market rates.

I have copied this letter, with yours, to the Prime Minister, the members of E(PSP) and Sir Robert Armstrong.

Yours sincerely,

Margaret O'Mara

NIGEL LAWSON
(approved by the Chancellor and signed in his absence)

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

CH/EXCHEQUER
REC. - 5 MAR 1984
ACTION Mr Gilhooly
COPIES TO CST, FST, MST, EST, Sir P. Middleton, Mr Bailey, Mr Burgner, Mr Kemp, Mr Monck, Mr Pearce, Mr Robson, Miss Sinclair, Mr Webb, Mr Hall, Mr Ridley

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

5 March 1984

Dear Nigel

BNFL PAY

You may like to know how matters stand on BNFL pay.

The present negotiation for an increase operative from 1 April 1984 relates to staff pay. The operative date for the manual workers is 1 July 1984 but BNFL are anxious to achieve the same operative date for both from 1985.

I have already let Con Allday know the broad limits within which I think a settlement ought to be achieved. He has now proposed to aim for a settlement below the present rate of inflation and which should, he hopes, increase this part of his wage bill by less than 4½% on an annual basis. However he proposes to offer a 15 month settlement in which he would deal with the extra 3 months by offering a lump sum cash payment, thus avoiding any enhancement of basic rates. He is not proposing to offer anything on leave entitlement or working hours.

Allday has stressed the extent to which productivity has been improved and costs held down in BNFL, reflected last year in an increased dividend of £12.4 m and £32.5 m of profit retained in the business. Overtime has been reduced to 3% of the total pay bill (£4.5 m against £11 m in 1980/81); and full co-operation has been obtained in the introduction of new technology, including £10m of computerised equipment. Numbers employed are well below the level in the 1981 Corporate Plan and 1,000 below actual levels a year ago. Allday expects strong staff pressure to improve the existing employee incentive scheme to keep the payment under it in line with inflation. He would prefer a scheme triggered by achievement but payable in part at least on a scale related to profits.

I regard these proposals as broadly acceptable provided it is understood that the 4¼% is taken to apply to the overall earnings effect of a settlement including anything given under the existing incentive scheme. A settlement on that basis would be comparable with what is being offered by other energy industries, including the NCB. As part of the limit of 4¼% annual rate increase in earnings, I would stipulate that the cash payments for the extra three months should be no more than the equivalent of a shade over 1%.

As for any new productivity arrangement, I would not want to rule it out at this stage but would want to stipulate that it be genuinely self-financing and to consider carefully its impact on earnings, its timing and its presentation.

I imagine you will see no serious difficulty about proposals at this level. In case there is any difficulty however I should say that Allday is having a first meeting with representatives of the staff on 6 March.

PETER WALKER

Local Govt file
with copy to NFL file

Prime Minister ②

To be aware. The papers at X are with you. AT 15/12

MT

LORD PRESIDENT

MEDIA

This note supplements briefing No 10 Press Office has supplied for your meeting with the press at noon tomorrow.

We are ending the year in reasonably good presentational shape. But there is one current worry which the meeting I attended on your behalf this afternoon on local government presentation did nothing to allay.

Patrick Jenkin presided and also present were Mr Waldegrave, Lord Bellwin, Leon Brittan, Sir Keith Joseph, Nicholas Ridley, Nicholas Edwards, Kenneth Clarke, Lord Gowrie, Lord Skelmersdale and John Gummer.

Mr Jenkin made the following points by way of opening:

X/ - it was thoroughly unfortunate that papers associated with the meeting were in the hands of the Opposition spokesman, John Cunningham; though he was clearly more concerned that Dr Cunningham should have the covering letter than that he had the briefing material;

- the purpose of the meeting was to secure more effective presentation of the Government's case in the face of a very well organised, professional and expensive opposition;

- Government must stand together; Ministers and Departments cannot opt out. (He instanced a case where apparently the Probation Service had been less than rigorous in discussions with local authorities).

The meeting then went on to worry about the machinery. Mr Jenkin saw bilateral discussions between his and other Departments developing. Lord Bellwin said he had got together panels of sympathetic local leaders separately for London and the rest of the country. John Selwyn Gummer also drew an organisational distinction in CCO between London and the rest (and underlined his limited resources). He added that the party felt that the ILEA was crucial since other county education authorities felt its spending was disgracefully extravagant.

Nicholas Ridley added point to the London problem and wanted to be sure that the whole of the presentational problem was effectively co-ordinated. Those asked to talk about London Transport reorganisation quickly found themselves embroiled in the projected local government changes and vice versa. Mr Jenkin was sure that co-ordination should rest with D/Environment and there was apparently no dissent.

It was at this time that I had to leave for Prime Minister's Questions. I have since spoken to Mr Jenkin's private office and they have welcomed my suggestion that I should put a note into his box tomorrow night (Friday).

If you agree, I would propose to forward the attached at Annex A.

Nuclear

Meanwhile, I should report that I have this week had a meeting with Heads of Information in Environment, Energy and MAFF about the Windscale mess, since it seemed that co-ordination left something to be desired. (I had earlier cleared the idea with the Prime Minister).

The Heads of Information were very unhappy about presentation but felt I could not be of much use until Ministers had sorted out policy and BNFL had taken a management/PR grip (which I had urged it to do in concert with D/Energy).

agree - I am not convinced that nothing can be done within Government, and I am going to keep a close eye on it. But BNFL today made a statement setting out the facts about the recent contamination accident and announcing a set of measures to prevent another incident. To that extent our consultations have borne fruit.

B. INGHAM

15 December 1983

10 DOWNING STREET

From the Press Secretary

16 December 1983

I am sorry I had to leave your meeting yesterday afternoon for Prime Minister's Questions. You kindly asked if I wished to make a contribution, but I fear I had run out of time and simply had to get away.

Had I been able to stay I would have made the following comments in the light of the discussion:

1. it seems fortunate that Christmas is coming to provide a natural break in the counter-attack; this should be used to get our act better together;

2. the D/Environment has already provided the basic arsenal of fact to convey to the public, but this needs to be supplemente by Transport, Education, Home Office, Wales, Arts and DHSS. D/Environment could usefully bring the input from the specialist Departments together into a central brief which copes with the problem of trans-Departmental responsibilities;

3. the work already done is already being used in support of such "engine room" activities as letters, articles, speech briefs etc. BUT we are still apparently missing an important dimension - namely the development of a press, radio and television campaign which dictates the battle and forces opponents on to the defensive; at present we are responding to rather than controlling events. Whatever finish still needs to be applied to the Government's policy and case we cannot allow the opposition to dictate the game for much longer;

4. thus I envisage a campaign which is conducted at at least two levels:

   - the admin-PR level by which the D/Environment unit provides the basic factual ammunition and ensures it gets to all who require it - eg. MPs, councillors, journalists etc;

- the highly visible PR level by which the Government's messages are conveyed through press but more especially radio and tv to a mass audience.

This requires the D/Environment unit to operate offensively and defensively:

- offensively by compiling a diary so anticipating events, orchestrating the Government's attack and positively identifying a theme of the week, or weekend, and gearing up the machine to hammer home the message related to the theme;
- defensively, to keep closely on top of day-to-day events and developments in the attack and to ensure that articles or spokesmen for radio and tv interviews are in place.

5. What if any additional machinery is required? Such a local government campaign of the kind I envisage is larger and more difficult than the nuclear defence campaign mounted by the MOD. But it could be effectively operated if:
   - a meeting of the size of your's yesterday (but not much larger) were held once a week for an hour with a clear agenda, supported by a campaign diary; and
   - the Heads of Information of the Departments concerned met the day before to co-ordinate their advice. I would be prepared to chair this meeting if it would help, but I would prefer David McDonald to do so with my personal support.

You may care to discuss.

I am copying only to the Lord President and Andrew Turnbull.

BERNARD INGHAM

The Rt Hon Patrick Jenkin, MP.

File

10 DOWNING STREET

From the Private Secretary

1 July 1983

BNFL: PRE-1971 WASTES

The Prime Minister has seen the correspondence between your Secretary of State and the Secretary of State for Defence.

The Prime Minister is clear that your Secretary of State's interpretation of the minutes of E(83)3rd Meeting is correct. The qualification of 'liability' in the first sentence of the Prime Minister's summing up reflected the following points which are recorded in the minutes:

a. Although the Government might give an undertaking to BNFL that it would defray the costs, the amount to be paid in any particular year by virtue of this undertaking was a matter for negotiation at the time.

b. It would be essential to monitor the costs of making safe wastes which were properly attributable to departmental programmes and the amounts of these costs would have to be agreed with the Government.

There is no suggestion in the minutes, which in the Prime Minister's view correctly reflect the discussion, that it was the intention that the Government's liability should be confined to that part of the cost which could not be met from BNFL's profits.

The Prime Minister does not wish to comment on the details of the draft letters circulated by your Secretary of State: she regards these as matters to be resolved in the light of her ruling by the Ministers directly concerned.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for Defence, the Secretary of State for the Environment, Chief Secretary, Treasury, and to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

Julian West, Esq.,
Department of Energy.

C

Mr SCHOLAR

27 June 1983

cc Mr Mount

BRITISH NUCLEAR FUELS LIMITED: PRE-1971 WASTES

The Policy Unit supports the advice offered to the Prime Minister on this subject by the Cabinet Office.

The interpretation suggested by Mr Heseltine amounts to saying to BNFL: "meet these costs if you can afford to; if you can't, we will". A formula of this kind is no way to motivate and manage a business, whether it is in the private or the public sector. This was presumably a consideration which E Committee had uppermost in its mind.

Mr Heseltine argues in his letter that because the E Committee discussion admitted the possibility that BNFL will meet the costs out of its profits, it follows that it was envisaged that the Government would guarantee those costs which the company proved unable to meet from its own resources. This conclusion does not follow at all: whether or not the Government would meet the costs would depend on whether they could be shown to be properly attributable to Government programmes.

NICHOLAS OWEN

CONFIDENTIAL

P.01051

MR SCHOLAR

Prime Minister

There is a dispute about what E decided on BNFL waste. Peter Gregson and Nick Owen (flag C) recommend that you support Energy/Treasury against Defence (see flag A).

Agree I write as at flag B?

MCS 28/6

BRITISH NUCLEAR FUELS LTD. (BNFL): PRE 1971 WASTES.

The recent correspondence on this subject between the Secretary of State for Energy and the Secretary of State for Defence has been copied to the Prime Minister. The latest letter from the Secretary of State for Energy (22 June) challenges the interpretation put by the Secretary of State for Defence on the minutes of E(83)3rd Meeting and, in effect, asks the Prime Minister to rule against the Secretary of State for Defence unless the latter withdraws.

flag D

flag E

2. There is no need for the Prime Minister to intervene until the Secretary of State for Defence has responded; but we understand that he is being advised to maintain his previous interpretation of the minutes.

he has now written (flag A)

3. In this event, we would advise the Prime Minister, in her capacity as Chairman of E Committee, to support the Secretary of State for Energy. The reasons are largely set out in the attached draft letter. One might also add the following points.

(a) The interpretation supported by the Secretary of State for Defence would be inconsistent with the general tenor of the Committee's discussion as recorded in the minutes: in particular, it would give BNFL and their auditors little or no reassurance.

(b) The Secretariat's manuscript notes record the Prime Minister as having said several times that the Government would have to 'indemnify' BNFL.

PLG

P L GREGSON
Cabinet Office.

24 June, 1983

Attachment:

CONFIDENTIAL

Mtype

DRAFT LETTER FOR MR SCHOLAR TO SEND TO THE SECRETARY OF STATE FOR ENERGY'S PRIVATE SECRETARY

BNFL: PRE-1971 WASTES

The Prime Minister has seen the correspondence between your Secretary of State and the Secretary of State for Defence.

2. The Prime Minister is clear that your Secretary of State's interpretation of the minutes of E(83)3rd Meeting is correct. The qualification of 'liability' in the first sentence of the Prime Minister's summing up reflected the following points which are recorded in the minutes:

a. Although the Government might give an undertaking to BNFL that it would defray the costs, the amount to be paid in any particular year by virtue of this undertaking was a matter for negotiation at the time.

b. It would be essential to monitor the costs of making safe wastes which were properly attributable to departmental programmes and the amounts of these costs would have to be agreed with the Government.

3. There is no suggestion in the minutes, which in the Prime Minister's view correctly reflect the discussion, that it was the intention that the Government's liability should be confined to that part of the cost which could not be met from BNFL's profits.

4. The Prime Minister does not wish to comment on the details of the draft letters circulated by your Secretary of State: she regards these as matters to be resolved in the light of her ruling by the Ministers directly concerned.

5. I am sending copies of this letter to the Private Secretaries to the Secretary of State for Defence, the Secretary of State for the Environment, Chief Secretary, Treasury and to Richard Hatfield (Cabinet Office).

CONFIDENTIAL

A cfino

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 20/13/7

23rd June 1983

Dear Peter

Thank you for your letter of 22nd June. I am afraid that I have a quite different recollection of the decision we took in E Committee on 30th March.

As I recall our discussion we accepted that at the end of the day the bulk of the costs would fall to the Government, either directly or through their effects on the finances of BNFL. Nigel Lawson had made proposals for meeting the costs directly, but we rejected these. We agreed that BNFL should be given an assurance sufficient to avoid the necessity for the Company's auditors to qualify the accounts, but we decided to leave the amount to be paid in accordance with our acceptance of 'ultimate liability' to be the subject of negotiation each year. We took the view that, while privatisation of BNFL was desirable, it should not be undertaken at the expense of a costly and embarrassing solution of the waste disposal problem. Until privatisation took place we saw no need to transfer responsibility for the wastes to the Government and to place a contract with BNFL for their disposal.

These points are clearly recorded in the Minutes of our meeting. Moreover you and I are under remit to discuss the attribution to

The Rt Hon Peter Walker MBE MP

programmes of 'any resulting expenditure': this quite clearly implies the possibility of there being no such expenditure, which could only be the case if, in the first instance at least, the costs were to be met out of BNFL's profits.

For these reasons I remain of the view that our decision was to leave the responsibility for the wastes with BNFL, notwithstanding the effect this would have on the Company and the prospects of privatisation, which we recognised; but that we would guarantee any costs that the Company was unable to meet from its own resources. I believe this interpretation is supported by the record of our meeting but I am content, as you suggest, for the Prime Minister to decide the issue.

Copies go to the other recipients of your letter.

Yours ever

Michael Heseltine

LEC NO

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Main Building
Whitehall
LONDON
SW1A 2HB

23 June 1983

Dear Michael

Your Private Secretary's letter of 20 June argued that the terms of the letters prepared for issue to BNFL were inconsistent with the outcome of the E Committee meeting in March. The interpretation you have suggested - that the Government would only provide resources to BNFL when the latter's were exhausted - implies, as Peter Walker has pointed out, that BNFL will bear the costs and Government will only step in if this would drive BNFL into losses. I do not think this is a reasonable interpretation of the argument at E Committee that the Government would accept the ultimate liability. Furthermore, it is quite inconsistent with managing BNFL as a commercial enterprise which might become a candidate for privatisation.

I, too, strongly urge you to withdraw your objection to the issue of the letters.

In the second part of your letter you repeat your case that your Department has fully discharged its legal liabilities and that no part of the costs should be borne on the Defence Budget. The Prime Minister's summing up at 'E' stated that the attribution to programmes and whether the programmes should be increased has to be resolved between the Departments concerned and the Treasury. This still remains to be done. Though it remains the Treasury view, as stated in the original 'E' paper, that there should be no additional public expenditure requirement, I do not think these questions need to be resolved before the issue of the letters to BNFL.

I am copying this letter to the Prime Minister, Patrick Jenkin, Peter Walker and Sir Robert Armstrong.

Yours ever Peter

PETER REES

D

NBPM get

MCS 23/6

01 211 6402

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Main Building
Whitehall
LONDON
SW1A 2HB

22 June 1983

Dear Michael

I was very surprised to see the letter that your private secretary wrote to mine on 20 June. – with regret & regard

On 19 May, Nigel Lawson circulated a draft of the letter that he suggested should be sent to the Chairman of BNFL, based upon the conclusions of the E Committee on 30 March. The Chief Secretary agreed to these drafts with one suggested amendment which, of course, we were happy to accept. I understand the reason that you were unable to reply to Nigel's letter but I do find it quite impossible to accept your interpretation of the E Committee on 30 March.

In my view, and obviously the view of the Treasury, that meeting clearly decided that BNFL should be relieved of the costs of dealing with the pre-1971 wastes attributable to the departmental programmes.

The reason for that conclusion was quite clearly that the need for Government guarantees for the continued trading of the company would be avoided, and the company would be able to plan on the basis of a viable commercial business with a clear prospect of privatisation. To conclude, as your secretary concludes in his letter, that the meeting on 30 March really intended the Government should only support BNFL if it were unable to meet liabilities from its profits, must be a wrong interpretation. Such an interpretation would mean that this company would be kept on the brink of insolvency with no idea of its future liabilities.

This, of course, would be a nonsense and would mean that the company would be one of the most unattractive companies to manage and quite impossible to privatise.

Whilst I understand the reason for the delay in your reply I do need to send the letters, drafted by ourselves and approved by the Treasury, within the next ten days in order to allow the auditors to complete the audit which finalises the accounts.

I am therefore asking you to withdraw your objection but, if not, I must ask the Prime Minister, to whom I am copying this letter, to agree that the letters as drafted by ourselves and amended by the Treasury should go out within the next ten days.

I am copying this letter to the Prime Minister, Patrick Jenkin, Peter Rees and Sir Robert Armstrong.

PETER WALKER

Govt Mach: Shareholding of BNFL

Feb 81

CCNO

NB

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-~~930 7022~~ XXXXXXX 218 2111/3

MO 20/17/7

20th June 1983

Dear Caroline,

Will reply if required

My Secretary of State has seen a copy of Mr Lawson's letter of 19th May to the Chief Secretary and the attached draft of two letters to the Chairman of BNFL.

'E' Committee on 30th March agreed that the Government would accept 'ultimate liability' in respect of pre-1971 wastes. My Secretary of State's understanding of this decision is that in the first instance BNFL would meet the liability out of profits and the Government would only intervene if BNFL's resources made this impossible in particular cases. Mr Lawson's draft letters, however, appear to depart substantially from this in accepting, in effect, full liability for the costs of disposing of the wastes concerned. If so, this is a major issue of principle which Mr Heseltine believes should be considered collectively.

In any case my Secretary of State wishes to re-emphasise, as he made clear at the meeting of 'E', that he regards his Department's liabilities as fully discharged. Ministers' decision to accept 'ultimate liability' was determined by considerations of policy towards BNFL, which is not the concern of the Ministry of Defence. For these reasons he remains firmly of the view that the costs which the Government is undertaking to meet should not fall to the Defence Budget, and he does not consider that the despatch of letters to BNFL in any way affects this position.

I am sending a copy of this letter to John Gieve (Treasury), Roger Bright (DOE) and Richard Hatfield (Cabinet Office).

Yours ever

Nick Evans

(N H R EVANS)

Miss C E Brooks

cf NO

01 211 6402

The Rt Hon Leon Brittan QC
Chief Secretary to the Treasury
Treasury Chambers
Parliament St
London SW1

19 May 1983

Dear Chief Secretary,

BNFL PRE-1971 WASTES

I was authorised to inform BNFL of the decision taken by the Government at E Committee on 30 March that we should accept ultimate responsibility for the Government's share of the pre-1971 wastes. Although I do not now intend to write to BNFL before the election, time will be short thereafter and it would be very helpful if you could agree to the terms of the attached letters so that momentum is not lost. These have been cleared at official level.

The dividend arrangement set out in the side letter would not be appropriate for a company whose shares were held, to any considerable extent, in the private sector, and I would be grateful if you would therefore confirm your understanding that this would need to be reviewed if a flotation or other sale of BNFL shares were imminent.

Depending on the method of finance that is agreed, the AEA should be able to find its share of the costs from within its existing PES programme. My Department will give the Treasury its full support in attempting to minimise the pre-1971 waste costs; I accept that though taking on these costs the Government should not contribute to the costs that other customers would in any case have incurred.

I am sending copies of this letter to Michael Heseltine and Tom King.

Yours sincerely
CBrooke

pp NIGEL LAWSON
(Approved by The Secretary of State
and signed in his absence)

FIRST DRAFT LETTER FROM THE SECRETARY OF STATE FOR ENERGY TO THE CHAIRMAN OF BNFL

C Allday Esq
Chairman
British Nuclear Fuels Ltd
Risley
Warrington
Cheshire
WA3 6AS

PRE 1971 WASTES

I am writing to inform you that, provided satisfactory arrangements can be agreed that the work is done efficiently economically and to required standards, the Government is prepared in principle to accept responsibility for the costs which BNFL incurs in treating and disposing of nuclear wastes, and in decommissioning plant, arising from programmes carried out prior to 1 April 1971, to the extent that Government Departments were responsible for those programmes. Acceptance of similar responsibility by the Atomic Energy Authority, the CEGB and SSEB must be a matter for these authorities, but the Government is prepared to discuss the matter with them.

The Government is not at this stage accepting financial responsibility in relation to any particular measures for the treatment or disposal of pre-1971 wastes and decommissioning of relevant plants. Agreement to such responsibilities will have to be reached separately as and when appropriate. Further, before it enters into any commitment to make payments, the Government will require to be satisfied: that costs will be properly attributed to programmes for which Government Departments were responsible; that the basis of change has been agreed in advance of the work being done; and that proper arrangements exist for controlling and monitoring these costs.

NIGEL LAWSON

SECOND DRAFT LETTER FROM THE SECRETARY OF STATE FOR ENERGY TO THE CHAIRMAN OF BNFL

C Allday Esq
Chairman
British Nucler Fuels Ltd
Risley
Warrington
Cheshire
WA3 6AS

In view of the Government's acceptance of responsibility (as set out in my letter of) in principle for the costs which BNFL incurs in treating and disposing of nuclear wastes, and in decommissioning plant arising from programmes carried out before 1971 the government expects BNFL to maximise its distribution of profit taking account of the Board's obligation to maintain the viability of the Company. In consequence, if profits exceed the level of the financial target (as agreed by the Government) over the target period by 10% or more, or, in the absence of a target, if profits exceed by 10% or more the average level earned by comparable sectors of UK industry (this level to be advised by the Government in consultation with the Company), the Secretary of State will expect the Directors of the Company to recommend a special

distribution of divided in addition to that indicated by the dividend guidelines, which would correspond to the amount by which profits exceed the target or average levels referred to above, unless there are relevant special circumstances.

NIGEL LAWSON

P.0995

PRIME MINISTER

BNFL liabilities for pre-1971 wastes
and plant decommissioning

(E(83)5)

BACKGROUND

This memorandum by the Secretary of State for Energy discusses how to deal with the costs of making safe the nuclear wastes deriving from pre-1971 programmes and now in the keeping of British Nuclear Fuels Limited (BNFL). The wastes arose mainly from the defence programmes of the 1950s and 1960s, though some are also due to work by the United Kingdom Atomic Energy Authority (UKAEA) on the civil nuclear power programmes, and some to the work of the electricity generating boards: the allocation is assessed in E(83)5 as about 80 per cent defence: 10 per cent UKAEA: 5 per cent generating boards. The remaining 5 per cent is due to programmes taken over by BNFL.

2. The total costs under discussion are assessed at £600 to £1,000 million, spread over 30 to 60 years. Like all the figures in E(83)5 (and this brief) the costs are expressed at January 1982 price levels. They arise partly from the capital costs of building new plant to treat the wastes; partly from the current costs of treatment; and partly from decommissioning plant built before 1971.

3. It is not in dispute that the costs will have to be incurred. It also appears to be common ground that they will have to fall, at least in the first instance, on bodies which are in substance part of the public sector. (BNFL, although owned 100 per cent by the government, happens to be classified to the private sector for the purpose of the public expenditure statistics. This should not however be allowed to confuse the issue.) The argument is over which public sector body or bodies should bear the costs.

4. E(83)5 argues that, except for the 5 per cent of the total attributable to its programmes, BNFL should be relieved from financial liability. A number

of reasons are put forward, of which the most important appear to be as follows.

a. If BNFL is required to accept all or most of the liability, it will become technically insolvent. It will require a government guarantee in order to be able to continue trading. Privatisation will be impossible for many years.

b. The worsening in BNFL's balance sheet would have serious effects on management morale and prejudice the company's competitive position abroad.

c. BNFL would have to use current profits (largely derived from civil business) to meet costs arising mainly from past defence programmes. This could be politically embarrassing.

5. The Secretary of State for Energy recommends that the Government should accept liability for 80 per cent of the costs; the UKAEA would defray 10 per cent; and BNFL 5 per cent. He 'would hope to persuade' the Central Electricity Generating Board to accept the remaining 5 per cent. He discusses a number of detailed methods of giving effect to this recommendation and concludes in favour of what is described in E(83)5 as Option C(4): the originators of the wastes would pay the full costs of treatment and disposal as they arose; BNFL would raise the capital costs of the waste treatment plant by borrowing and recover them in their charges to the originators of the wastes; BNFL would not be responsible for the costs of decommissioning the pre-1971 plant.

6. The main point of concern to the Treasury is that there should be no increase in public expenditure. The Secretary of State for Defence is likely to argue that his budget should not be burdened with the bulk of these costs.

MAIN ISSUES

7. This matter has been brought before E Committee at the Secretary of State for Energy's request because he has so far been unable to resolve the outstanding issues of principle with the other two main protagonists, the

Secretary of State for Defence and the Chief Secretary, Treasury. The Committee need not get into the details but should concentrate on the following main issues:

i. should the government take over the bulk of the liability from BNFL?

ii. should the liability be allocated according to the principle that "the polluter pays", ie mainly to the defence budget?

iii. is it to be a constraint that there should be no increase in public expenditure, ie must the costs be absorbed within the defence budget?

It may also be convenient to touch on two consequential points:

iv. the need to ensure that there are adequate arrangements for controlling the costs of the waste disposal programme;

v. whether there should be an announcement.

Should government take over the bulk of the liability?

8. It is clear from the note by the Treasury Solicitor attached to E(83)5 that there is no legal liability on the government to accept any part of the cost. BNFL has the wastes in its keeping and could be required to make them safe at its own expense. The question is whether the government's wider objectives - in particular, making BNFL a commercial body and, if possible, privatising it - make it desirable voluntarily to take over a substantial part of the liability. The relevant arguments are clearly set out in E(83)5. BNFL was set up in 1971 with the intention of hiving off that part of the UKAEA's activities which could be run commercially. It is now clear that there are pre-1971 liabilities regarding waste which BNFL cannot meet from its profits, if it is to be privatised in the foreseeable future.

9. If BNFL does not meet the cost of waste disposal from its own profits, an alternative would be to make BNFL's customers pay (this is described as Option B in E(83)5). In practice, this means the electricity consumer. There would be no economic justification for this course; the electricity supply industry would be certain to object strongly; and, particularly in view of current concern over industrial electricity prices, Ministers will probably not wish to pursue this option.

10. If the government wants BNFL to be privatised in the foreseeable future and is unwilling to place extra burdens on the electricity consumer, there is no alternative to the government's accepting the bulk of the liability.

Should the government's costs be charged to the defence budget?

11. If the government accepts a substantial part of the liability, then the most natural course would be to attribute the resulting costs to the defence budget. This would follow the principle that "the polluter pays". The wastes are largely due to past defence programmes.

Should there be an increase in public expenditure?

12. The Secretary of State for Defence is likely to argue that, whether or not the costs ought properly to fall on the defence budget, he ought not to be expected to absorb these costs. However, although the total cost is large (perhaps as much as £800 million might ultimately fall on the Ministry of Defence), it will be spread over at least 30 years. At worst, the average cost should not exceed about £20 million a year, compared with planned defence expenditure of £15.3 billion in 1983-84. Against this it can be argued that the problem facing Ministers is not one of authorising new expenditure but of accommodating a reality. If the Government chooses not to accommodate that reality by forgoing dividends from BNFL and the proceeds of privatising it, the Secretary of State for Defence ought not to be forced automatically to make economies in his programme. The right course might be to leave open the question of whether there should be any offsetting increase in the defence budget to be examined on its merits as part of the 1983 Public Expenditure Survey.

Controlling costs and other detailed points

13. In separate Ministerial correspondence the Secretary of State for Energy has argued that his proposals are in no sense an open-ended commitment. But there is a risk that that is what they could become. If BNFL can charge the originators of the wastes whatever it costs to dispose of them, it has a cost-plus contract, which provides no incentive to efficiency. No doubt the customers could monitor the performance of the contract (and they all have considerable technical expertise in the area); but the Committee will probably wish to ask the Secretary of State for Energy, if it accepts his underlying propositions, to do his utmost to ensure that the consequent financial arrangements contain the maximum incentive to efficiency. Possibilities include the negotiation of fixed-price contracts; and the setting up of a separate company to process the pre-1971 wastes, subject to some special form of control by the government.

14. As for the detailed modalities discussed at some length in paragraphs 13 and 14 of E(83)5 and paragraphs 21 to 33 of the note by officials, the Committee may well take the view that they should be settled by the Secretary of State for Energy with the Secretary of State for Defence and the Chief Secretary, Treasury in the light of the Committee's decisions on the questions of principle.

Announcements

15. If the Committee should favour leaving financial responsibility with BNFL (whether the costs ultimately fall on the company's profits or are recovered from their customers), it is not clear that any announcement is required. But if the Government accepts a substantial part of the responsibility, an announcement to Parliament will be desirable for reasons of financial propriety. The Secretary of State for Energy can be invited to agree a form of words with the Chief Secretary, Treasury and other Ministers as appropriate.

But we will need to settle what goes into BNFL's accounts.

MCS

HANDLING

16. You will wish to ask the Secretary of State for Energy to introduce his memorandum. The other Ministers with a direct departmental interest are the Secretary of State for Defence and the Chief Secretary, Treasury; the Secretary of State for the Environment will be able to deal with questions about the need to dispose of the wastes.

CONCLUSIONS

17. You will wish the Committee to reach conclusions on:

i. the question of principle whether the government should accept responsibility for that part of the cost of dealing with the pre-1971 nuclear wastes now in the keeping of BNFL and which can be attributed to programmes for which government departments are responsible;

ii. whether the government's share of the costs should be charged to the defence budget;

iii. whether the defence budget should be required to absorb these extra costs, or there should be an offsetting increase in public expenditure, or the question of an increase should be left open for consideration in the 1983 Public Expenditure Survey;

iv. whether the Secretary of State for Energy should be asked to ensure that there are suitable arrangements for controlling the costs of the waste disposal programme;

v. whether any announcement should be made.

PLG

P L GREGSON

29 March 1983

SP CONFIDENTIAL

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

29 March 1983

Dear Nigel,

BNFL LIABILITIES FOR PRE-1971 WASTES AND PLANT DECOMMISSIONING

I have seen the paper by officials and your covering note (E(83)5) on this subject.

As I cannot attend the meeting of E on Wednesday 30 March I thought I should drop you a line to let you know that I agree that, clearly, the C options are the only credible ones. I do not have strong feelings about the individual merits of these but would be inclined to accept C4 in preference to any of the other options.

I am sending a copy of this letter to other Members of E Committee.

Norman

CF X ref this

with compliments

MINISTER OF STATE

CIVIL SERVICE DEPARTMENT
Whitehall London SW1A 2AZ

Telephone 01-273 5563/4086

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

The Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

2 March 1981

Dear David

cc PM get
TL

THE SHAREHOLDING IN BNFL

Thank you for copying to me your letter of 19 February to Leon Brittan.

In general I welcome what you propose. The transfer of ownership will clarify lines of accountability for a major body operating in a sensitive area. There is, however, one unfortunate side effect - the transfer will cause BNFL to be classified as a separate quango. At present BNFL is a subsidiary of a quango and does not therefore feature separately on the list. But as a company whose shares are owned wholly by yourself, BNFL will be in the same position as a number of other companies which we count as quangos.

I do not suggest that this point should weigh too heavily or should cause you to reconsider your decision. But I thought you would wish to be aware of it.

I am copying this letter to the Prime Minister and Leon Brittan.

Yours ever
Barney

BARNEY HAYHOE

CONFIDENTIAL

Mr Lamont
CC PUS
Mr Tucker
Mr Manley

Prime Minister

You should be aware of this change - BNFL's shares will in future be held by the S of S for Energy. This seems sensible - even though BNFL will now be classified as a separate quango. (See Mr Heyhoe's letter at Flag A)

STATE FOR ENERGY
HOVE
BRIGHTON

01-211-6402

Rt Hon Leon Brittan QC MP
The Chief Secretary
HM Treasury
Parliament Street
London SW1

19 February 1981

Dear Leon

THE SHAREHOLDING IN BNFL

You will wish to know that I have been considering the way in which the Government's interest in BNFL is formally held, and have concluded that there are a number of powerful arguments for transferring the shareholding in BNFL from the UKAEA to myself. To achieve this, I intend to make an order, subject to negative resolution, under Section 11 of the Atomic Energy Authority Act 1971.

BNFL was set up by the 1971 Act, which transferred to the Company the property, rights, liabilities, and obligations of the AEA's Production Division. In return, BNFL issued shares to the AEA, which at present owns and holds the £32.7m of issued and paid up capital in the Company.

In the beginning, there was an obvious link between the AEA and BNFL, both in terms of staff and experience. But it has now become clear that, with the expansion of BNFL into a very sizeable Company, the formal relationships between the AEA, Government and the Company need to be changed to reflect the actual relationships.

BNFL is already a large company, some 14,500 strong, with an annual investment programme of about £200m. It has plans for a large expansion. In practice it can no longer be seen as a subsidiary of the AEA. The significance in economic and political terms of BNFL's business makes it inevitable that my Department, in consultation with the Treasury as appropriate, must sponsor and supervise the company, and deal directly with it on policy and financial issues. I must be accountable to Parliament for BNFL's activities; I have to guarantee the Company's borrowing; and the Company's dividends are paid directly into the Exchequer, and are settled on the basis of guidelines set by my Department. BNFL's relationship with Government is with the Department, not the AEA.

I have sought the views of the AEA on this proposal, and while a number of the Authority's members were strongly in favour, the majority view was that things should be left as they are. They argued that the transfer could weaken the technological ties between the AEA and BNFL, that the AEA had already been subjected to too much reorganisation, and that the shareholding had symbolic significance so that its transfer to me would damage morale in the AEA.

It is, however, hardly surprising that the Authority as such should resist a move to remove BNFL from their formal control, and I am not convinced by the Authority's arguments for the status quo. The formal arrangements need not and should not change the close technological relationship between the Authority and BNFL, which arises out of their respective programmes and is not dependent upon the shareholding arrangements. I think a transfer of the shareholding to me would reflect more accurately the relationships between the AEA, BNFL, and the Department as they are today. We must also consider the Company's wishes and the morale of its staff. I understand that the Executive Directors of BNFL all support the need for a transfer, and they judge that their staff support them.

I therefore intend to make an order under the 1971 Act transferring the shareholding in BNFL to myself. This will not have any public expenditure implications; nor do my officials anticipate any significant administrative problems to be caused by the transfer. The AEA have found the formal duties of a shareholder to be small and, as I have said, my Department are already fully involved in monitoring the Company's performance.

I am copying this letter to Barney Hayhoe.

Yours ever

Dick

D A R HOWELL

CONFIDENTIAL

Mr Lamont
cc PUS
Mr Tucker
Mr Manley

Prime Minister
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THE SECRETARY OF STATE FOR ENERGY
HOVE BOND
CHURCH ROAD
HOVE
EAST SUSSEX BN3 2AN

01-211-6402

Rt Hon Leon Brittan QC MP
The Chief Secretary
HM Treasury
Parliament Street
London SW1

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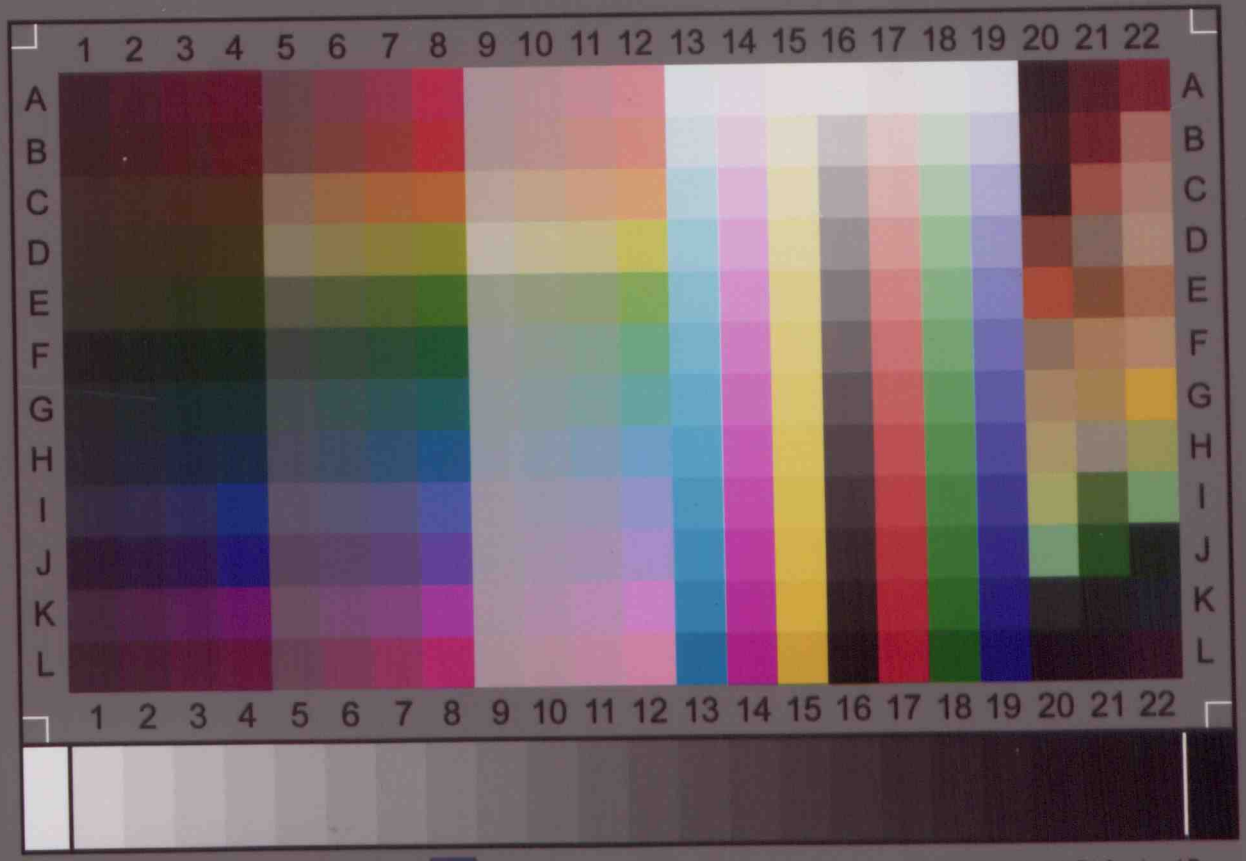
Yours ever

Dick

D A R HOWELL



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