



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

9 June 1981

D. David,

FAST REACTOR EXPENDITURE 1981-82

requested - below dated 22/5.

Thank you for your letter of 23 May.

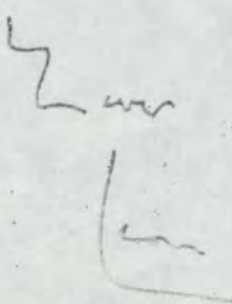
First, a general point. The Atomic Energy Authority are responsible for spending large sums of public money - their net expenditure this financial year will be over £200 million. They enjoy a considerable degree of independence over the way in which these resources are deployed. As a quango, they are not subject to detailed control by your Department, nor do they come within the scope of the normal CSD controls over manpower and complementing - indeed, I understand that they are planning to increase their staff numbers by about 1 per cent per year over the next 5 years at a time when our objective is to reduce civil service numbers and the size of the public sector generally. They are not subject to the competitive and commercial pressures of the market, even to the extent of the nationalised industries. In short, they lead something of a sheltered existence.

These facts lead me to conclude that the time has come for an independent examination of the efficiency with which the AEA carry out their existing functions, and the effectiveness with which they deploy their resources to meet current policy. I should emphasise that I am not proposing a policy review: that will have to await the outcome of the evaluation of fast reactor policy. Rather, scrutiny would concentrate on nuts and bolts matters, such as manpower levels, complementing, and control of stores etc. This would be consistent with the approach to non-departmental public bodies suggested in the letter of 6 April from the Private Secretary to the Prime Minister. I suggest that the review might with advantage be carried out by a firm of management consultants with appropriate experience of the public sector. If you agree, I propose that we ask our officials, in consultation with CSD and the AEA, to draw up suitable terms of reference.

Turning to your specific points, I understand that the current position following discussions between our officials and the Atomic Energy Authority is as follows. Agreement has been reached on a firm reduction of £2.4 million (at outturn prices) in expenditure on NNC design contracts. You are also offering savings of £2.2 million (£2 million at September 1980 prices) on the AEA's own fast reactor programme. I welcome these savings, which will be reflected in a reduction in the cash limit on Class IV, Vote 7 and incorporated in a Revised Estimate. In addition, there is potential for savings of a further £1 million on the NNC design contracts. The cash limit will not be reduced by this further £1 million which will be retained in your Estimate and PES division for 1981-82, but on the clear understanding that it will not be spent without prior agreement of the Treasury. Thus the total potential savings so far agreed are £5.6 million.

It is difficult to believe that this is all the savings that can be made. E Committee accepted last December that an independent UK CDFR was not among the main options. Surely therefore we should be concentrating the UK effort in those areas where our strengths lie, rather than maintaining a programme across the whole field of fast reactor technology pending the outcome of the evaluation of the fast reactor policy which your Department is carrying out. By staying on the second course, as the AEA apparently recommend, there is the risk of large sums of expenditure proving nugatory in the event of collaboration. This is clearly unsatisfactory. Furthermore, the AEA say that further savings in 1981-82 are not practicable at this stage because most capital expenditure has been committed and current expenditure contains a large element of fixed costs eg salaries. But it would be extremely surprising if - given will and determination - it was not possible to make further savings within a programme of this size eg a reduction in holdings of stores and materials. There might also be scope for deferment of capital projects not yet fully committed. I should be grateful, therefore, if you would ask the Authority to re-examine their figures with a view to producing more savings, for example by concentrating fast breeder work on those areas where our strength lies and deferring capital projects.

I am sending a copy of this letter to members of E and to Christopher Soames, Sir Robert Armstrong and to Robin Ibbs.


LEON BRITTAN

_9 JUN 1981





From the Secretary of State

CONFIDENTIAL

Terry Mathews Esq
Private Secretary to the
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

1 Mr Lamberton

2 PA

WR 15/6

12 June 1981

Dear Terry,

In his letter of 9 June to the Secretary of State for Energy, the Chief Secretary suggested that management consultants should be employed to examine the operating efficiency of the Atomic Energy Authority.

You will recall that my Secretary of State wrote to the Chancellor on 29 May expressing his reservations about proposals to use management consultants to investigate the efficiency of nationalised industries, when the MMC is already available for this purpose. He suggested that before any individual proposals were put to Ministers, the general principle should be discussed in the Official Committee on Nationalised Industry Policy; and the matter is now to be discussed at the Committee's meeting next Wednesday. The AEA is eligible for reference to the MMC under Section 11 of the Competition Act for an efficiency investigation and therefore I hope that a decision on the form of any independent examination of its efficiency can be delayed until after the discussion in NIP.

I am copying this letter to the Private Secretaries to the recipients of the Chief Secretary's.

Yours ever,

Nicholas McInnes

N McINNES
Private Secretary

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George



10 DOWNING STREET

Mr Lakerster agreed 2. 15.

The Chief Secretary thinks the
AEA can come up with greater
savings than they have proposed.
He also thinks the Authority
should be subject to scrutiny
by management consultants.

We should await Howell's
response before putting to the
PM, I think. I suspect
they may make some gesture
on savings to buy off the proposed
scrutiny. The scrutiny might be
difficult given the Department
are considering the long term future
of the AEA (eg whether it should be
turned into an ERDA).

WFGH 10/6

15 JUN 1981



CC ADuguid



CC PUS

A
Mr Lamont
Mr Manley
Mr Kelly
Mr Henderson
on file

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 ~~XXXX~~ 6402

CONFIDENTIAL

The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
H M Treasury
London SW1

22 May 1981

Dear Leon

FAST REACTOR EXPENDITURE 1981/82

I wrote to you on 4 February to say that I had asked the UKAEA and the NNC to review their expenditure on the Fast Reactor, in the light of the discussions at E Committee on 18 December. I have now had advice from both organisations which has been considered by my officials and yours.

NNC Design contracts

I understand that agreement has been reached between officials and the NNC and AEA that the 1981/82 design contracts should be reviewed on a basis which offers potential savings of some £3.2m in 1981/82.

UKAEA Programme

In this area I understand that officials have been unable to reach agreement. The AEA's expected expenditure in 1981/82 on fast reactor related areas totals £105.5m at September 1980 prices. The major part of this (63.6m) is concerned with continuing operation of the Prototype Fast Reactor (PFR) at Dounreay, and its fuel plants, and with the improved performance. The balance is more concerned with the Research and Development programme aimed at a Commercial scale fast reactor. But the two areas are closely inter-related with shared overheads.

In asking the AEA to review this expenditure, I have made it clear that we must not go beyond the decisions reached (at E Committee) in December; that any cuts should not in any way prejudice our bargaining position in any future international collaboration negotiations; and that, while the possibility of a UK CDFR has not been ruled out, the timescale of a start to a UK CDFR in 1985/86 proposed by the industry in December 1979, is no longer appropriate. In discussions with the Authority my officials have, rightly in my view, also made it clear that there is no wish on the part of the Government at this stage to

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see the PFR operation run down, or the Dounreay effort significantly curtailed. There was no suggestion at E Committee that we should contemplate this possibility; and any sign of doubts about Dounreay, before we have made up our minds about future policy, would create a major political storm here.

In responding to my request for a review the Authority have had all these constraints in mind. In addition they have had to consider what cuts would be practicable given that we are now into the year in question, and that much of the expenditure for 1981/82 is committed.

The outcome of the AEAs review is an offer to reduce the non-PFR expenditure by £2m in 1981/82.

Points that need to be borne in mind in considering this figure are:-

a. The Authority's considered view is that any greater cut, even assuming it were practicable, would crucially undermine our credibility in international negotiations. Such cuts would almost certainly lead to withdrawal of the Authority from specific fields of research, and would be apparent to our potential partners. Indeed the US has already become aware of and reacted unfavourably to reductions of effort by the Authority in the safety field - through existing arrangements for exchange of technical information.

b. The level of expenditure on fast reactor now contemplated by the Authority is well below that needed for a 1985/86 start of construction postulated in 1979. Thus the realities of the possibility and timescale of a UK CDFR are already reflected in these figures.

c. E Committee in December 1980 did not decide on any change in policy; nor did it seek cuts in the Authority's programme.

It is very much a matter of judgement what is needed to maintain our credibility as international partners, but I have pressed the Authority hard on this, and their advice must be taken very seriously.

In the light of these considerations, I do not think it would be consistent with our remit from E Committee to seek further cuts from the Authority for 1981/82. The total potential savings produced by this exercise are of the order of £5m; and I hope you will agree that this is a useful contribution.

I am copying this letter to members of E, to Robin Ibbs and to Sir Robert Armstrong.

D A R HOWELL

Jan
David

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From the Private Secretary

8 June 1981

NATIONAL NUCLEAR CORPORATION

The Prime Minister has read your Secretary of State's minute of 20 May and the Secretary of State for Energy's letter of 1 June on the above subject.

She has commented that there is no point in deciding on a future Chairman until NNC's shareholding pattern is right. However, her own information - based on a conversation she recently had with Sir Edwin McAlpine and Sir Francis Tombs last week - is that shortage of finance has not been the problem in NNC's management of recent contracts.

I am sending a copy of this letter to Julian West (Department of Energy).

T. P. LANKESTER

Godfrey Robson, Esq.,
Scottish Office.

Copy in Appointments filing.

VB

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