Prime Minister

Are you now content with Mr Gibb's appointment as chairman, and also with the suggested statement on NNC's financial risks?

Agreed on an interim basis

Prime Minister

In his minute of 8 June your private secretary recorded your view that we should not decide on a future Chairman of NNC until the Company's shareholding is right. I have since seen the Secretary of State for Scotland's further minute on the question of NNC shareholding, and the SSEB's views about NNC's management.

There have been a number of recent developments in the nuclear field which have a bearing on these issues and which I am now reporting to you.

PWR

We are committed to establishing the PWR as a valid alternative to the AGR in this country. Our strategy for achieving this has been to press ahead as fast as possible with preparations for construction of a first PWR at Sizewell based on the Westinghouse design. We have been aiming for a start to construction in 1983; but development of the Westinghouse design to meet UK safety requirements and to take account of lessons learnt from the Three Mile Island incident, and the need to prepare for a wider-ranging public Inquiry before construction work can be authorised makes the timetable tight.

Progress with the design work has been slower than planned. It has recently become clear that the modifications proposed are leading to an over elaborate and excessively costly design. There seemed a serious risk that unless the work could be got back onto timetable, and the design problems sorted out, the public Inquiry and any decision to construct the Sizewell PWR would become an electoral issue and the cost advantages that we expect to get from the PWR would be lost. I therefore asked the industry to propose early corrective action.

Copy in Appointments.

Their advice to me is that:-

i. they propose major simplifications to the design, leaving it much closer to the Westinghouse concept but still meeting UK safety requirements;

ii. they should set up a joint task force consisting of the NNC, the CEGB and the UKAEA chaired by Walter Marshall - which would bring together the combined resources of the three organisations with a view to making rapid progress with the design;

iii. more use should be made of the experience of Bechtel and Westinghouse.

They see this approach as offering a reasonable chance of recovering lost time although, until they have been able to assess the work still needed on the design, they will not be in a position to give firm advice on the timetable.

I have accepted this advice and am announcing the setting up of the task force in an arranged PQ. Nonetheless I remain concerned about the PWR, which is an essential part of our strategy to revitalise the nuclear industry and provide us with cheaper electricity. In my view it is essential that the NNC which is in the lead on the design work should take a firm grip on the situation. This is one of my reasons for wanting to see the Chairman's job filled as soon as possible, and for approaching any ideas of changes in the shareholdings very circumspectly.

NNC shareholding and financial structure

As I said in my letter of 1 June to the Secretary of State for Scotland I had asked my officials to consider with NNC and CEGB how the problem of NNC's financial weakness might be overcome. Specifically I have set up a working group involving the NNC and the Boards to consider how the financial risks associated

with the building of nuclear power stations can be properly apportioned, consistent with NNC taking on responsibility for project management for the Sizewell PWR. The group has started its work. It is already clear that the possibility of greater financial commitment on the part of the shareholders, and the possibility of a change in the balance of shareholdings will have to be looked at. But we cannot assess the potential interest of new shareholders until we can say what financial commitments they will be asked to take on. When we come to this issue then we will certainly take account of the SSEB's wish to see GEC's shareholding and influence diminished, and that of such companies as NEI and MacAlpine to have a greater participation. We have made this clear to the various parties concerned.

But I do not regard the balance of the shareholdings as directly relevant to the present problem; I know Arnold Weinstock shares this view. As I understand it the SSEB and NEI in particular believe that the AGRs are given insufficient priority by the NNC as presently constituted. I do not believe this is the case. But they would like to see changes in the shareholding and in the representation on the Board to give the proponents of the AGR more of a say. There may also be an expectation that greater board representation will bring more subcontracts. In my view it would be unfortunate to encourage these notions by looking for ways of increasing NEI's or others' representation, particularly if this resulted in increased influence of factions opposed to the Government's policy with regard to the PWR.

If NNC is to become a strong freestanding company capable of taking on project management we need a strong independent board. We need to get away from the idea of the board being composed of the representatives of particular interests. But meanwhile there is a vacancy on the board and I am consulting the various interested parties on the possibility of appointing John Eccles. His experience in the nuclear field should enable him to make a useful contribution and his presence, albeit not as representing any particular group, might help to balance the board.

I should also like to put on record the existence of the working group on financial risks in such a way as to indicate that the shareholding situation will be looked at. The draft of my proposed statement is attached.

Mr Gibb's appointment

Against this background I propose that we should now appoint Frank Gibb as Chairman of NNC. My reasons are:-

i. the need for NNC to get a grip on the PWR situation; if the post is left vacant there will be continued speculation and uncertainty in the company, and the PWR itself will be endangered;

ii. I do not see any possibility of reaching quick conclusions on the financial questions - especially in view of the very strong position that GEC holds in relation to changes in the shareholdings;

iii. the appointment would not pre-empt decisions which we may wish to take about the shareholdings. Frank Gibb understands that his appointment would be an interim one, and that we would want to review it when we have reached a firm view about the financial risks and the shareholdings.

Conclusions

I would suggest therefore that the Secretary of State for Scotland can be satisfied that the question of changing the shareholding balance will be fully examined (with the active participation of the SSEB), and that Frank Gibb's appointment as Chairman in no way pre-empts decisions. I hope that you can now agree to this appointment.

I am copying this minute to the Secretary of State for Scotland.

DH.

SECRETARY OF STATE FOR ENERGY

26 June 1981

R H

29 June, 1981

National Nuclear Corporation

The Prime Minister has read your Secretary of State's minute of 26 June, and is content that Mr Frank Gibb should be appointed Chairman of NNC on an interim basis. She is also content with the suggested draft statement on NNC's role in relation to the major financial risks involved in nuclear power station construction.

I am sending a copy of this letter to Godfrey Robson (Scottish Office).

T. P. LANKESTER

J D West, Esq
Department of Energy

Copy in Appointments.

DRAFT STATEMENT

To ask the Secretary of State whether he will make a statement about NNC.

A. I have agreed with the Corporation and the Generating Boards that there should be a review of how NNC's role in relation to the major financial risks involved in nuclear power station construction could be strengthened. The views of all the NNC shareholders will be sought in course of this exercise.

HOLD for Mr Howell's reaction.
GR 12/6

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Energy

MANAGEMENT - IN CONFIDENCE

PRIME MINISTER

THE NATIONAL NUCLEAR CORPORATION

I have seen the Secretary of State for Energy's minute to you of 5 June about the appointment of Mr Frank Gibb as Chairman of the National Nuclear Corporation and also your Private Secretary's minute to mine commenting on our earlier correspondence. I agree with you that there is no point in deciding on a future Chairman until NNC's shareholding is right. Although I have no personal knowledge of Mr Gibb or his qualities for the post I am well aware of the strength of feeling of the South of Scotland Electricity Board that action needs to be taken on the shareholding if NNC is to have an effective and independent role in the future.

As I have already explained, SSEB's major commitment is of course to ensure the successful construction and commissioning of the Torness AGR and it is their anxiety about that project which has prompted them to express their misgivings to me. They tell me that there is increasing evidence of a lack of commitment to the project by the NNC Board and they see no evidence that NNC is addressing itself to the need to strengthen its management and technical resources to deal with the project, SSEB also tell me that because of the difficulty they experience in dealing with NNC there have already been long delays in various phases of the work - for example in the design contract which took 18 months to conclude and in other important contracts such as that for graphite machining - and that other areas of work are now showing substantial slippages at a time when it is critical for the success of the project to get it moving on all fronts.

The problem is not primarily one of finance because that can no doubt be overcome by some form of agency agreement. The SSEB have put forward telling evidence about delays and strong arguments that the shareholding and Board membership of the NNC must be such that no one company can dominate the proceedings of the Board to block or delay executive action. As I pointed out in my minute of 20 May the SSEB's record in the field of power station construction entitles them to speak with some authority and the picture they paint is a most disturbing one which we cannot afford to ignore.

The Secretary of State for Energy's letter of 1 June concentrated very largely on the financial aspects of the problem but this seems to me to beg the more fundamental issues of the shareholding balance and of the

the apparent lack of commitment by the NNC to the AGR projects. In the meantime he should, I suggest, delay appointing a Chairman of the NNC until such time as all parties concerned in the nuclear reactor programme can discuss the whole question of shareholding, Board structure and the outstanding problem of finance and report their findings to Ministers.

I am sending a copy of this minute to David Howell.

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

12 June 1981

Alan

NNC

Thank you.

I have kept the papers (which I had originally) about Mr. Rooney's departure & the question of a new Chairman. Otherwise, the rest are yours.

J.

10/6.

PRIME MINISTER

In the wake of Mr. Rooney's resignation from the National Nuclear Corporation, Mr. Younger has minuted you (Flag A) with comments on NNC's performance in placing the contracts for Torness. He says there have been prolonged delays due to internal problems in NNC, which in turn he blames partly on the shareholding pattern. (you will remember that, when Ministers considered the reorganisation of NNC in 1979, it was decided - after all - to make no change in the shareholding).

Mr. Howell (Flag B) has written saying that NNC's financial weakness has proved a problem at both Torness and Heysham, and that it will cause problems for the PWR unless something is done. He has asked his officials to consider the problem with NNC and CEGB, and the Scottish Electricity Board and Scottish Office will be brought in on the discussions.

I think you can simply say that you very much hope that they will come up with a solution so as to improve NNC's performance.

Agree?

There is no point in deciding the future chairman until we have got the shareholding pattern right.

5 June 1981

From my dinner with McAlpine & Tomlin last week, I understand that shortage of finance is not the problem.

MT

B

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
TELEPHONE: 01-211 3000
211-6402

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AV

1 June 1981

Dear George

NATIONAL NUCLEAR CORPORATION

I have seen your minute of 20 May to the Prime Minister in which you ask for my comments on SSEB's view that the delays in the placing of the contracts for Torness have been largely due to internal problems in NNC which have reflected the shareholding pattern.

It is my understanding that the delay over the placing of the Torness and Heysham II contracts arose over differences between NNC and the Boards as to the role that NNC was to play with regard to those contracts. It was CEGB's view that NNC had insufficient financial substance to act as principal and that therefore it should act, in effect, as agent of the Boards. The Monopolies Commission has since said that an agency role for NNC is appropriate. NNC thought this arrangement ran counter to the Government's express wish to see NNC's role strengthened with a view, in particular, to it taking on total project management responsibilities for the Sizewell PWR. The desire for a satisfactory solution was I believe shared by all NNC Directors and shareholders. The delay in placing the contracts was the result of a search for an arrangement which both provided NNC with a satisfactory role and protected the Boards financial position. It was incidentally my understanding that NNC regarded the arrangements agreed with SSEB as more satisfactory in this respect than those proposed by CEGB.

In discussion between the parties on this issue it has clearly emerged that the financial weakness of NNC is a major obstacle to NNC's taking on total management responsibility for the Sizewell PWR. I have therefore asked my officials to consider with NNC and CEGB how this problem can be overcome. My officials are keeping yours

informed and have agreed that SSEB and your Department should be associated with that discussion. Meanwhile they have, of course, noted the SSEB view as put forward in your minute.

I am copying this to the Prime Minister.

Yours ever

David

D A R HOWELL

TL o/R.

Energy

R

27/5

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

/see.....

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 the 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.

Yours ever

David

D A R HOWELL

MANAGEMENT IN CONFIDENCE

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

PRIME MINISTER

THE NATIONAL NUCLEAR CORPORATION

I have seen the Secretary of State for Energy's minute to you of 12 and 18 May about the change of Chairman at the National Nuclear Corporation (NNC).

NNC has a central role in the construction of the Torness AGR station currently being built by the South of Scotland Electricity Board. Since I am anxious to see Torness completed to time and within budget any measures to strengthen NNC and give it more purposeful direction will have my wholehearted support. I have no direct knowledge of the present difficulties within NNC, but I am aware of SSEB's views. I think I should draw these to your attention because they are strongly held and because the Board's record in the field of power station construction entitles it to speak with some authority.

SSEB was consulted over our reorganisation of NNC in 1979 and while it was in full agreement with the steps we took to strengthen the management of NNC it argued that to secure a strong and decisive organisation it was essential to alter the shareholding arrangements so as to reduce what it considered to be the unduly dominant position of GEC. In the event we decided to make no change in the shareholdings. SSEB believes that its views have been vindicated by subsequent experience and that the prolonged delays that have arisen over the placing of contracts for Torness have been largely due to internal problems in NNC which have reflected the shareholding pattern. The Board had already expressed concern to me, before the recent developments, that the lack of direction and co-operation in NNC would make it increasingly difficult to complete Torness on schedule.

As I have said, neither I nor my officials have the means to judge SSEB's version of events, but if there is any force in it, a change of Chairman in itself will be unlikely to transform NNC into the strong and independent concern we wish to see. I would therefore welcome the comments of the Secretary of State for Energy, to whom I am copying this minute, on the views expressed by SSEB. I understand that the question of the NNC shareholdings may in any case have to be reviewed because its small capitalisation has caused problems over the placing of contracts and I hope that SSEB and my Department would be involved in any such review.

G.Y.

20 May 1981

Prime Minister

Lord Weinstock, Dr Marshall, and Sir John King feel Mr Rooney must resign the chairmanship of NNC. Mr Howell agrees. On Sir John King's advice, he suggests the resignation should be presented as being for health reasons. Mr Howell is urgently considering who might replace Mr Rooney.

MANAGEMENT IN CONFIDENCE

MT

WSH
12/5

Prime Minister

THE NATIONAL NUCLEAR CORPORATION

You will recall the arrangements made last year for Mr Dennis Rooney to become Chairman and Chief Executive of the National Nuclear Corporation. We hoped that this would assist in strengthening the nuclear industry as part of our nuclear policy announced in December 1979.

The appointment is not working out as hoped. Lord Weinstock, Sir John King and Walter Marshall have all told me that Mr Rooney has lost the confidence of his non-executive colleagues on the Board. He seems not to be providing NNC's executives with the leadership demanded of a Chief Executive and, even as Chairman of the Board, is indecisive.

Arnold Weinstock has told me that, although GEC were instrumental in bringing about Rooney's appointment, he now feels that it was a mistake which he would like to see rectified in the near future. I am inclined to agree, although a change now, so soon after the appointment, will need to be handled with extreme care if we are not to damage our nuclear policy and give ammunition to the anti-nuclear lobby.

Sir John King agrees with the need for a change but is also conscious of the presentational problems. He has been asked to be the spokesman of the non-executive directors at a meeting with Mr Rooney which is planned for 13 May. Sir John has told me that he will seek to persuade Mr Rooney that, in his own interest, as well as in the interest of the nuclear programme, he should resign on personal grounds (Rooney has just returned from a spell in hospital) and avoid a damaging, public board room confrontation.

If King can successfully use his influence in this way, I will take the same line when Rooney comes to see me as he inevitably will (the Chairman is nominated by the AEA, but on my instructions after consultation with GEC - the salary and conditions of employment are determined by the Board). This should give us time to look after the presentation and to ensure that there is continuity in the management of the Corporation.

The present view of the non-executive Directors is that Frank Gibb of Taylor Woodrow should become part-time Chairman, with Sir John King as Deputy Chairman. Dr Franklin who, it is said, has recently been performing well in difficult circumstances, would remain as Managing Director. This is a reasonable temporary solution but it is not ideal. I would certainly prefer to avoid announcement of a stop gap appointment and will be urgently considering whether we can find, as a permanent solution, a really strong personality to serve as part-time Chairman. What we need is someone not only to provide

Original in Appointments, together with directly related exchanges.

MANAGEMENT IN CONFIDENCE

leadership of the Board and the executive of NNC but also able to take a really firm line when necessary with other organisations, such as the CEGB.

I am disappointed with this situation, but a way must now be found to rectify it swiftly. I think Sir John King's advice as to how it should be handled is wise. We cannot be certain that he will succeed but he is hopeful. I wished you to have an early warning of this difficulty and I will keep you informed. In view of the crucial importance of avoiding any premature publicity, I am not copying this minute widely at this stage.

JA

Secretary of State for Energy
12 May 1981