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10 DOWNING STREET

From the Private Secretary

11 February, 1985.

ce PPS HMT  
PPS - Charallo: Duchy  
of Lancaster  
PPS Employment  
PPS CST  
PPS Transport  
PPS DTI  
PPS Scottish Office

PPS Environment  
Maclean HMT  
R Hatfield Cabinet  
J Lewis Jones Lord President  
R. Stoute Lord Chancellor  
H Taylor Home Office  
D Morris Lord Privy Seal  
H Steel Law Officers  
I. Jack Lord Advocates  
Lord Denham.

Dear Michael.

AEA Review: Parliamentary Statement

The Prime Minister has seen your Secretary of State's minute of 5 February and the subsequent exchange of correspondence with the Chief Secretary. She agrees that it is not necessary in the statement to raise the question of adjusting the EFL of the electricity industry. She recognises that, other things being equal, the increase in funding of nuclear research to be borne by the electricity industry would be reflected in an increased (or less negative) EFL. Any adjustment of the 1985-86 EFL can be dealt with later when other factors can be taken into account.

The Prime Minister has noted the difference in wording proposed for the passage on charges for underlying research. While she recognises that charges will vary between customers, she feels that the words "where possible" suggested by the Secretary of State for Energy could be an invitation to some customers to argue that they are not in a position to bear any charges. The wording suggested by the Chief Secretary appears to her to provide sufficient flexibility without giving away AEA's negotiating hand.

The Prime Minister has asked that the references to legislation should be agreed with the Lord President.

I am sending copies of this letter to the Private Secretaries to the members of E(NI) and QL, and to Richard Hatfield (Cabinet Office).

Your sincerely  
Andrew Turnbull

Andrew Turnbull

Michael Reidy, Esq.,  
Department of Energy.

JB.

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①  
PRIME MINISTER

AEA REVIEW: PARLIAMENTARY STATEMENT

Mr. Walker wishes to make a Parliamentary statement on Monday about the AEA Review. The general objectives of making the AEA more commercially orientated and of increasing the scope of the customer/contractor principle are not disputed. Mr. Walker and the Chief Secretary are, however, squabbling over two points.

i) Mr. Walker argues that he got Sir Walter Marshall to agree to finance more of AEA's work on the understanding that the electricity industries' EFL would be increased to cover the extra costs rather than have the industry find economies elsewhere. In 1985/86 this would imply a £4m reduction in the negative EFL from £1,128m to £1,124m. The Chief Secretary maintains that he has not agreed to an automatic adjustment, and opposes announcing a claim on the contingency reserve at this stage. He prefers to look at this as one among many influences on the EFL of the electricity industry. The two have agreed that there should be no mention in the statement. Mr. Walker wants an understanding that the EFL will be adjusted "when needed". The Treasury believe the understanding should be "if and when needed".

Agree that the reply to Mr. Walker should say that you are content for there to be no reference to the adjustment of the EFL; that, other things being equal, there would be an adjustment; but that the question should be resolved when other influences on the EFL can be taken into account?

ii) Both accept the following wording that "the Government broadly endorse a recommendation of the Review Group that there should be an element in the Authorities' charges to customers, including the Department, in respect of underlying research. I am discussing the application of this recommendation with those principally concerned."



Mr. Walker, however, points out that the report said that charges on individual contracts would have to vary with what the market would bear. To reflect this he wishes to add the words "where possible" after "there should". The Chief Secretary feels that this is an open invitation to customers to argue that they are not capable of meeting any of these costs. They feel that the reference to discussions with those concerned provides sufficient flexibility.

Agree with the Chief Secretary on this one?

Yes mt

A further outstanding issue is that Mr. Walker is seeking a place in the 1985/86 legislative programme for the legislation required to implement these recommendations. QL is finding difficulty accommodating him and opposes any specific reference to 1985/86. Agree Mr. Walker be asked to clear this part of the statement with the Lord President?

AT

Yes mt

Andrew Turnbull  
8 February 1985





## PRIME MINISTER

## AEA REVIEW: PARLIAMENTARY STATEMENT

I am glad that the Chief Secretary recognises the value for medium term public expenditure control of the policy for the AEA which I propose to announce in Monday's Parliamentary statement; and that he will support my case for including a Bill in the 1985/86 Legislative Programme so that the Trading Fund can commence in April 1986.

On the amendments he proposes to the statement, I have little difficulty with his last suggestion, except that the Review made it clear that in some cases at least the amount recovered in the AEA charges on individual contracts would have to vary with what the market would bear. I am therefore willing to accept the Chief Secretary's amendment with one small change:

"the Government broadly endorse a recommendation of the Review Group that there should where possible be an element in the Authority's charges to customers.....principally concerned".

I fear however that I cannot accept the insertion of "at least for the time being" in the reference to funding safety research in paragraph 5 of the statement. This would be asking for trouble. It would immediately invite question about the value of our assurance that there would be an independent programme of general safety research within the AEA, with consequent damage to our whole nuclear stance. If in the future we decide to change this policy, that will be time enough to make a fresh announcement. There is no point in inviting trouble by inserting qualifications now.





As to the question of matching adjustment of the EFLs of the electricity supply industry for amounts for which the CEGB assumes responsibility, I must make it clear that in the course of my efforts to achieve the savings required of me by my colleagues I gave unequivocal assurances to Walter Marshal and to the electricity industry that these matching adjustments would be made. It is frankly in the interests of medium term public expenditure control that there should be such an understanding, for there is no way in which we would induce the industry to sustain these transfers, let alone carry them further, without such an assurance. Provided it is understood between us that there will be specific EFL adjustments for these transfers when needed, I need not insist on the inclusion of a reference to these adjustments in the statement. But it would be contrary to all our wishes if I were to renege on my assurances and so frustrate our plans for these transfers.

I therefore propose that we substitute the following words based on the Chief Secretary's proposal, for the last two sentences of paragraph 6 of the draft of the statement:

"With other changes I expect this to result in a reduction of £5 million in my Departmental vote in 1985/86 compared with previous plans".

I think it would be misleading to add a reference to the fact that the reduction is already reflected in Cmnd 9428. The offsetting reduction in the ESI EFL is not reflected in Cmnd 9428 and it would therefore be misleading to refer to one side of the matter without the other.



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I hope it will be agreed that what I have suggested goes a long way to meet the Chief Secretary's points, consistent with the undertakings I have given to Sir Walter Marshall and the ESI, which are in any case the only basis on which we can make progress in this matter.

I am copying this minute to colleagues on E(NI) and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read 'D. G. S. J.', is written over a faint, large watermark of the word 'CONFIDENTIAL'.

Secretary of State for Energy

8 February 1985

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CENO



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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

8 February 1985

*Dear Secretary of State*

AEA REVIEW: PARLIAMENTARY STATEMENT

I refer to your minute of 5 February to the Prime Minister and the draft Parliamentary statement about the review of the Atomic Energy Authority.

The draft statement refers to the additional funding by the Generating Boards and goes on to highlight the change you propose should be made in the electricity supply industry's EFL. This might prompt questions about whether SSEB's EFL is also to be changed. If so, I would be grateful if you would make clear that SSEB's EFL was set taking into account these additional costs and that no change to the EFL will therefore be made. That is the line which I propose to take if I receive any enquiries.

I am copying this letter to the Prime Minister, to colleagues on E(NI) and QL, and to Sir Robert Armstrong.

*Yours sincerely*

E S GOWANS  
Private Secretary  
Approved by the Secretary of State  
and signed in his absence



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G 5 4 2

28 FEB 1985



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FROM: CHIEF SECRETARY  
DATE: 8 February 1985

PRIME MINISTER

**AEA REVIEW: PARLIAMENTARY STATEMENT**

Peter Walker sent me a copy of his minute to you of 5 February with a draft Parliamentary statement about the Review of the Atomic Energy Authority.

2 I am generally content with the thrust of his statement. It reflects the culmination of a thorough review by his Department of the kind which is so valuable for medium-term public expenditure control. We will support Peter's case at QL for including a Bill in the 1985-86 programme so that the Trading Fund can commence in April 1986.

3 Peter's minute records a misunderstanding on whether the electricity industry's EFL agreed in November should be adjusted for the increased funding they will provide to the AEA. I circulated a minute to colleagues on 18 September proposing how we handle the AEA Review during the 1984 public expenditure round. This said - (para.4(b)) - that we should take account of added costs for CEGB when we sought to settle external finance for the electricity industry. My subsequent paper (MISC 106 (84)23) proposed detailed cost savings on electricity in each year and showed how the various elements built up by 1987-88. Paragraph 10 (i) and the more detailed explanation in Annex D (h) made it clear that I was reducing my proposed saving by amounts for the extra nuclear R & D costs resulting from E(NI) decision on the AEA Review of 15 October. The records of the various discussions subsequently do not indicate that Peter dissented from this approach at the time.

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4 To make a further adjustment to the EFL now would involve a public claim on the 1985-86 Reserve at a time when there is already market scepticism about its adequacy. I have told Peter already that, if these costs turn out to cause the ESI serious difficulties during 1985-86, I would consider afresh a bid against the Reserve then. He is also free of course to raise the possibility of an increase in the figures for the later years during the next Survey. I do not think I can go further than that.

5 These funding implications are reflected in paragraph 6 of the draft statement. I think they should anyway be linked more closely to the recent Public Expenditure White Paper; otherwise the £5 million reduction in 1985-86 Vote funding might be misunderstood as a later change. After the first two sentences: this paragraph might then read:

"With other changes I expect this to result in a reduction of £5 million in my Departmental Vote in 1985-86 compared with previous plans; the reduction is already reflected in Cmnd 9428 (Table 3.4)."

There are two other points on paragraph 5 where the draft diverges slightly from what we agreed in E(NI) on 15 October:

- (a) We decided that "at least for the time being responsibility for funding general safety research should remain with the Department". These qualifications might be reflected by including "at least for the time being" after "continue" in the fourth sentence.
- (b) Peter's paper (E(NI)(84)17) indicated that the AEA should aim to secure a contribution towards underlying research from its private sector work similar to that required from public sector customers. The draft refers only to public sector business. I suggest that the last two sentences read (changes are underlined):

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"The Government broadly endorse a recommendation of the Review Group that there should be an element in the Authority's charges to customers, including the Department, in respect of underlying research. I am discussing the application of this recommendation with those principally concerned."

6 I am copying this minute to colleagues on E(NI) and QL and to Sir Robert Armstrong.

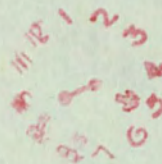


PETER REES

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1-8 FEB 1985



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BIP with PM  
r Treasury response

CC/NO

AT 5/2

PRIME MINISTER

## AEA REVIEW: PARLIAMENTARY STATEMENT

When we discussed the Review of the Atomic Energy Authority in E(NI) last autumn E(NI)84 17th Meeting I said I would circulate a draft Parliamentary statement once my consultations with interested parties had reached the right stage.

I now attach the draft of a statement which I would like to make on 11 February. It is very important for the success of the new regime on which we agreed that the Government's policy for the Authority should be announced without delay. We need to avoid prolonged uncertainty for the staff and to give the management a firm basis for working out the new system and for persuading the staff to give it their full support. It is also essential for the health of the civil nuclear industry as a whole that Government policy in this field should appear considered and firm, rather than hesitant and indecisive. For the same reason, I am asking the Lord President to agree to the inclusion in the 1985/6 Legislative Programme for the short Bill necessary to establish the Atomic Energy Authority Trading Fund. I attach a copy of the letter I have sent to him.

E(NI) also asked me, in consultation with the Chief Secretary, to discuss with the Chairman of the CEGB to what extent the Board would be willing to fund thermal reactor research. The Chief Secretary and I have done this, and Sir Walter Marshall has agreed to increase the Board's already very substantial funding of this programme (£19 million a year plus associated repayment work) by a further £2 million a year. He has also agreed to make a contribution of £2.1 million in 1985/86 rising to £2.7 million in 1987/88 towards the cost of the general safety programme of the AEA, which is at present wholly vote funded. This new contribution is helpful and I am satisfied that it will not endanger the independence of the programme, since £3½ million of work will continue to be funded by my Department.

The Chief Secretary and I are satisfied that this additional contribution represents the maximum which can be extracted from the CEGB at this stage. In particular, Sir Walter Marshall has insisted that the





remaining thermal reactor and safety programmes represent the minimum for viable independent programmes. The Chief Secretary and I differ however on the consequences for the electricity industry's EFL's for 1985/86 and subsequent years of these and other transfers of funding responsibility resulting from the implementation of the Review. All my discussions with the industry have been on the understanding that these adjustments would be made once the figures were agreed. The Chief Secretary by contrast argues that the present EFL already includes assumptions about the scale of these transfers of funding responsibility. But his papers to MISC 106 last autumn never dealt with 1985/86 or 1986/87, there was never any discussion of his vague propositions for 1987/88, and I never at any stage accepted his views. I must ask the Chief Secretary to reconsider his position: the approach proposed in para 6 of the draft statement is the only way in which I can secure these contributions from the electricity supply industry.

Much work on the implementation of the Review and on reinforcement of the AEA management to make a success of the new system will remain when the statement has been made. But making the statement is the essential first step.

I am copying this minute to colleagues on E(NI) and QL, and to Sir Robert Armstrong.

Secretary of State for Energy  
5 February 1985



DRAFT STATEMENT

1. With your permission Mr Speaker I would like to make a statement about the future of the Atomic Energy Authority. My Rt Hon Friend, the Secretary of State for Energy, told Parliament on 28 March that he had set in hand a wide ranging review of the role and activities of the Authority. On 3 October he placed in the Library of the House a press statement which summarised the recommendations of this Review. Following consultations with the interested parties I can now inform the House of the conclusions reached by the Government.

2. The Authority was established in 1954 as a vote-funded body with a high degree of statutory independence to foster the development of the civil uses of nuclear power. Today civil nuclear power is an essential and established part of our national life. Last year more than 18% of electricity supplied in the UK was nuclear. The proportion will reach 21% when the three nuclear stations most recently linked to the national grid reach full power, with a further increase when stations now under construction are completed. The civil nuclear industry in the widest sense now provides about 100,000 jobs. All this has been achieved with an excellent safety record. The Authority's work is held in high regard and it will continue to have a major role to play in both the nuclear and non-nuclear field.

3. The Review had two guiding principles:

- firstly, that the Authority should move further towards a commercial basis of operation;
- secondly, that a defined customer/contractor relationship should be applied to as much as possible of its work.

The Government fully endorse these principles.





4. The Review recommended, and the Government accept, that the activities of the Authority should be placed on a Trading Fund basis. The Authority will be required to account for its activities in a fully commercial manner, within financial objectives set by the Secretary of State. [We intend to legislate in <sup>as soon as possible</sup> the 1985/86 Parliamentary Session to provide the Authority with a capital structure and powers to borrow as required so as to enable it to operate as a Trading Fund from April 1986].

5. I have considered carefully, in consultation with the Authority and with its customers in the nuclear industry, how the principles of the Review should apply to the funding of particular programmes at present financed by my Department. A balance is required between the application of the customer/contractor principle, which is valuable for financial discipline and a more commercial approach, and the retention of an independent capability for safety and underlying research in the Authority. The electricity industry, like the Government, attaches importance to that independent capability. Although the Generating Boards will increase the amount of work which they pay for on a customer/contractor basis, my Department will continue to fund a substantial Authority programme of thermal reactor and general safety research. The Government broadly endorse a recommendation of the Review Group that there should be an element in the Authority's quotations to public sector bodies, including the Department, in respect of underlying research. I am discussing the application of this recommendation with those concerned.

6. The effect of these proposals will be to carry further the development of recent years under which the funding of the Authority's expenditure has become more broadly based and proportionately less dependent on Department of Energy Votes. In particular there will be a further increase in funding by the CEGB. Adjustments will be made to the EFL of the electricity supply industry for amounts for which the CEGB is assuming responsibility. With other changes I expect this to result in a reduction of £5 million in my Departmental Vote in 1985/6 [and an adjustment from minus £1128 million to £1124 million in the 1985/6 EFL of the electricity supply industry.]





7. The AEA has already made a major contribution to the development of civil nuclear power in this country. It continues to give valuable support to the nuclear industry in both the public and the private sectors. It is diversifying its servicing in the non-nuclear field, and has made a major technology contribution to North Sea Development.

8. The evolutionary changes I have just announced will put the Authority on an increasing commercial footing and will give its staff a new incentive. I am confident that these changes will enable the Authority further to develop its role and contribution to the economy on both a national and international basis. I am also confident that all those concerned will join in taking full advantage of this new opportunity.



