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*Selekt
Review*

PRIME MINISTER

United Kingdom Atomic Energy Authority Review
(E(NI)(84)17)

BACKGROUND

FLAG A In January of this year the Secretary of State for Energy set up a working group of officials to consider the future role, funding and organisation of the United Kingdom Atomic Energy Authority (AEA). Their report is attached to Mr Walker's paper (E(NI)(84)17). The main conclusions were that an authoritative, independent body not fundamentally different from the present AEA would continue to be required, but that there should be significant changes in the way in which the nuclear programmes are funded and in the AEA's relationships with the rest of the nuclear industry so as to put its operations on a more commercial basis. This would be achieved by increasing the proportion of funding by the Generating Boards and British Nuclear Fuels Limited (BNFL); and by putting the AEA on a Trading Fund basis, with such presently vote-funded work for the Department of Energy as can not be transferred to the nuclear industry moving to a customer/contractor footing. As a consequence, the AEA's customers should no longer be represented on its Board. Privatisation of either the AEA or some of its activities was thought impractical for the present, although further work on the longer term prospects was recommended.

Proposals

2. The Secretary of State for Energy's paper, (E(NI)(84)17) invites Ministers to endorse the Review's conclusions, except that he recommends that thermal reactor and general safety research should continue to be funded on the Department of Energy's vote rather than either:

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Walter Pennington





- a. funded by the Generating Boards on a non-specific basis as recommended by a majority of the review group; or
- b. funded by the Boards on the basis of specific customer/contractor projects, as favoured by Treasury officials on the group.

He suggests provisional reductions in the Department of Energy's vote of £1 million in 1985/86 and £17 million in both 1986/87 and 1987/88 to reflect the funding changes. Legislation would be needed early in the 1985/86 Session to effect the Trading Fund proposals.

FLAG B

3. The Chief Secretary, Treasury's minute of 12 October, covering an exchange of correspondence with Mr Walker is primarily concerned with public expenditure considerations. The Chief Secretary suggests that greater savings should be made by

- transferring funding of thermal reactor and safety research to the Generating Boards; and
- transferring certain costs to the AEA's customers in 1985/86 rather than 1986/87.

This (together with some other minor adjustments) would result in reductions in the Department of Energy vote of £20 million in 1985/86, £25 million in 1986/87 and £37 million in 1987/88.

4. The precise relationship between the Secretary of State for Energy's and the Chief Secretary's figures, particularly in the middle year (1986/87) is not clear. This need not prevent the Sub-Committee from discussing the broad policy issues but the expenditure implications of any policy decisions will need to be worked out in more detail.



MAIN ISSUES

5. So far as we know, it is unlikely that any member of the Sub-Committee will dispute the broad thrust of the Review's recommendations, namely that the AEA should become primarily a contract Research and Development (R & D) organisation operating through a Trading Fund. But there is likely to be disagreement about some of the details. The main issues are:

- i. should thermal reactor and safety research be largely funded by the Generating Boards or remain vote-funded;
- ii. should the AEA's non-Department of Energy customers contribute to the cost of underlying research, and, if so, on what basis;
- iii. the future level of the fusion programme;
- iv. the timing of the changes;
- v. the public expenditure consequences of i.-iv.;
- vi. the need for, and direction of, further work on the AEA's future.

Thermal Reactor and Safety Research

6. Transferring funding of this work to the Generating Boards on contract as favoured by the Chief Secretary would increase the savings on the Department of Energy vote by about £18 million a year, assuming that the Generating Boards were willing to fund all of the projects. (If the AEA could not find a customer for a particular project, it could approach the Department of Energy on a case-by-case basis, but this could reduce the savings). Mr Walker assumes that public expenditure would not be affected,



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because the Chief Secretary has agreed that the extra costs to the Generating Boards and BNFL should be "taken into account" in settling their External Financing Limits (EFLs). There might however be savings if the Chief Secretary has in mind that this argument be subsumed within the wider question of squeezing the electricity industry's EFL.

7. Mr Walker argues that the AEA should continue to undertake nuclear safety research of its choosing out of funds provided by the Department of Energy, on the grounds that to place safety research solely under the control of the Generating Boards would play into the hands of the anti-nuclear lobby. There is also doubt about the ability of the Department of Energy to act as an informed customer for any residual safety projects which the nuclear industry are unwilling to fund.

8. On the other hand the research in question is for the direct benefit of the Generating Boards, and it could be seen as inconsistent with the logic of the proposed changes for it to be funded by the Government. A possible compromise, recommended in the officials' report, would be for the AEA's work in this area to be funded by the Generating Boards on a non-specific basis. They are against this, but the Sub-Committee might wish to probe the strength of their feelings; there is some evidence that Sir Walter Marshall could be persuaded to accept it if suitable Parliamentary Statements were made about the Government's philosophy. There might be scope for the Generating Boards to provide funding on a partially contract and partially non-specific basis.

Underlying Research

9. The aim of the proposed changes is to put the AEA on a commercial basis. This cannot be achieved solely by charging customers the cost of specific pieces of research (the present system for non-Department of Energy customers),



since the AEA's expertise rests on its body of underlying research. At present this is funded entirely by the Department of Energy, who are effectively subsidising the AEA's other customers by over £23 million a year. The Review proposes that £12 million should be shifted to other customers by 1987/88 by treating half these costs as overheads in determining contract prices for specific research. One result will be to increase the cost of AEA research commissioned by Government Departments - mainly Environment, Employment, Defence, and Trade and Industry. It is assumed, but Mr Walker and other Ministers will wish to confirm, that this would be offset by increases in Departmental Estimates for the PES period: the Chief Secretary's minute (paragraph 4) appears to accept the point for 1985/86.

10. The Generating Boards and BNFL are opposed, and there could also be resistance from the AEA's other customers (about 8 per cent, £26.8 million, of the AEA's expenditure is on non-nuclear research). But it seems unlikely that much work would go elsewhere as a result.

Fusion Programme

11. Mr Walker wishes to reduce expenditure on fusion, which is unlikely to be needed in the foreseeable future. European Community (EC) commitments, particularly on the Joint European Torus (JET), mean that there is little room for manoeuvre before 1990, and Mr Walker proposes savings of £1 million in 1985/86, £2 million in 1986/87 and £3 million (out of £14.3 million) in 1987/88. This follows consultation with the AEA and the Advisory Council on Research and Development for Fuel and Power (ACORD), and is unlikely to be controversial.

Timing

12. Mr Walker proposes implementation of the main changes in 1986/87. The Chief Secretary suggests that the funding



of thermal reactor and underlying research could be transferred to a contract basis by 1985/86, in advance of the setting up of the Trading Fund in April 1986, thus accelerating some of the potential reductions in the Department of Energy's vote. Mr Walker believes this would prejudice discussions with the AEA's customers on the changes and is strongly opposed to it.

13. The Sub-Committee may wish to probe the scope for introducing the changes piecemeal, although clearly they will need to be announced and discussed with affected parties as a whole. It may be that, whilst not conceding the principle, Mr Walker will be prepared to agree to aim for extra savings in 1986/87 and 1987/88. If no agreement is reached, the precise figures could be remitted to the Chief Secretary and Mr Walker for further discussion, perhaps following more talks with the AEA and its customers.

14. Mr Walker also appears to be seeking the agreement of E(NI) to legislation in the 1985/86 Session. That, of course, will be a matter for QL and then Cabinet to decide in due course.

Further Work

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15. Dr Nicholson's minute of ¹²~~10~~ October suggests that a further, wide-ranging review might be undertaken at an appropriate time. Mr Walker's paper and the Review itself point to the need to monitor the working of the new arrangements and to do further work towards possible future privatisation. The Sub-Committee might wish to return to this at a later date, when the impact of the present changes has become clearer. There is no dispute that the present moves to put the AEA on a commercial basis are an essential first step to privatisation.



HANDLING

16. You will wish to invite the Secretary of State for Energy to introduce his paper. The Chief Secretary, Treasury will wish to comment on the public expenditure implications. The Secretaries of State for Employment and Defence, and the Ministers of State for Trade and Industry and the Environment all have an interest as customers of the AEA. The Minister of State, Foreign and Commonwealth Office will be able to advise on EC aspects of the fusion programme.

CONCLUSIONS

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

- i. whether thermal reactor and safety research funding should largely be transferred to the Generating Boards, and if so whether on a customer/contractor or non-specific basis;
- ii. whether the AEA's non-Department of Energy customers should contribute to the cost of underlying research;
- iii. whether to make at least some changes, as proposed by the Chief Secretary to take effect in 1985/86;
- iv. whether to approve the proposed reduction in the fusion programme.

18. You will no doubt wish to remit the detailed public expenditure arithmetic to the Secretary of State for Energy and the Chief Secretary.

PLG
P L GREGSON

12 October 1984