

NDA response to the Public Accounts Committee report and recommendations.

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Summary and Recommendation:

This report provides a brief summary of the NDA response to recommendation 6 made by the by the Public Accounts Committee (PAC) following the Managing Risk Reduction at Sellafield report published by the National Audit Office (NAO).

Recommendation: That Members note the response made by the NDA.

1. Background

- 1.1** On the 7th November 2012 the NAO published a report into the findings of an assessment undertaken by the NAO to judge the challenges faced in cleaning up Sellafield.
- 1.2** Following this report the Public Accounts Committee (PAC) visited the Sellafield site and on the 26th November held an evidence gathering session at Energus with various members of DECC, Sellafield and the NDA.
- 1.3** As a result of their findings the PAC made 6 recommendations to improve the management of Sellafield. The Government responded agreeing with the recommendations made by the PAC and setting target implementation deadlines by which the recommendations had to be implemented.
- 1.4** In April 2014 the NDA published a report “Harnessing Sellafield’s contribution to the regional and national economy”. This report is in direct response to recommendation 6 made by the PAC. (Refer to Appendix 1)
- 1.5 PAC Recommendation 6:** *The Authority and Sellafield Limited should set out what added value can be achieved from taxpayers’ investment in Sellafield, clarify their roles in delivering this and set performance targets for contributing to the development of the regional and national economy and workforce.*

The Government agrees with the Committee's recommendation.
Target implementation date: April 2014.

2. The report summarised;

- 2.1** The report highlights that the wages at Sellafield drives a higher than average disposable income and that 56% of the workforce are from Copeland.

- 2.2** Throughout the report they recognise the importance of not only changing Sellafield Ltd policy regarding socio economics but insuring that contracting companies implement the same socio economic policies. Sellafield is currently expanding its direct commitment to local apprenticeship and the next phase is to encourage a significant change in the level of supplier commitment.

- 2.3** Through its Responsible Procurement Programme (RPP) and improved forecasting of future supply chain skill and employment requirements, Sellafield Ltd is now encouraging Tier
 - 1.1** 2 suppliers to increase their commitment towards the creation of additional local employment opportunities

 - 1.2** 34.4% of the supply chain spend is retained in west Cumbria. In order to improve procurement a draft socio economic strategy has been prepared that establishes 7 principles that will be established in Sellafield contracts.

Draft socio economic strategy 7 Principles:

- 1. Support a reduction in local youth and long-term unemployment
- 2. Improve local pathways to employment through long-term development of education, skills and training matched to long-term Sellafield Ltd business needs
- 3. Increase the proportion of SME work to stimulate growth in local long-term skills and services.
- 4. Encourage the local supply chain to support resolution of technological challenges through innovation.
- 5. Support improvements to transport infrastructure and reduce reliance on road transport
- 6. Reduce the number of people working directly on the Sellafield Site through the development of suitable alternatives (e.g. Albion Square development)
- 7. Provide skilled resources and direct funding to support community investment

- 1.3** The NDA also recognise that an important part of developing their socio –economic strategy is linked to the development of west Cumbria as the Centre of Nuclear Excellence (CoNE).

Appendix One:

Harnessing Sellafield's contribution to the regional and national economy

Harnessing Sellafield's contribution to the regional and national economy: NDA response to Public Accounts Committee 43rd Report 'Progress at Sellafield' Recommendation 6

April 2014

Introduction

This note forms the response from the NDA and Sellafield Ltd to Recommendation 6 that arose from the PAC Hearing in November 2013.

The PAC concluded, "It is not clear what wider economic benefits have been achieved from the enormous quantity of public money spent at Sellafield. The Department for Business, Innovation and Skills, the Department of Energy and Climate Change, the Authority and Sellafield Limited all provide support for the development of the nuclear supply chain. In addition, the £1 billion spent annually by Sellafield Limited on procurement ought to help create jobs, build skills and drive sustainable economic growth in the region and the UK.

The PAC recommended that "The Authority and Sellafield Limited should set out what added value can be achieved from taxpayers' investment in Sellafield, clarify their roles in delivering this and set performance targets for contributing to the development of the regional and national economy and workforce."

Response

Overarching Position

The Energy Act 2004 gives NDA supplementary responsibilities to ensure there is a sustainable workforce for the long-term clean up and decommissioning mission, alongside mitigating the impacts that decommissioning may bring on the economies of local communities close to our sites. The NDA's approach to meeting these responsibilities is set out in its Strategy document which contains the following objectives:

- To ensure the NDA estate has the skills and capability to carry out the mission efficiently and effectively
- To optimise the NDA supply chain to develop an affordable, cost-effective innovative and dynamic market to deliver our mission
- To support the creation of dynamic, sustainable local economies for communities living near our sites

With regard to its approach to its socio-economic obligations, the NDA bases its approach on the following three main drivers:

- Enhance opportunities for local people and business to be involved in decommissioning through education, skills and training
- Maintain a healthy supply chain and support the diversification of the local economy into broader areas of activity
- Increase the attractiveness of areas near to our sites as places to live, work and invest

As the Site Licence Company, Sellafield Ltd is the employer of the 10,000-strong workforce and the contractor with the supply chain. In its recently published Strategy, Sellafield Ltd sets as one of its key objectives to:

- Invest in people and make the best use of supply chain partners having the right people, with the right skills in the right place at the right time

- Provide communities and taxpayers with the socio economic growth return on their investment

Within Cumbria the NDA, Sellafield Ltd, and Nuclear Management Partners work together as ‘nuclear ‘partners’ to bring positive benefits from the Sellafield programme through activities that encompass supply chain development, skills, research & development and socio-economic investments.

A range of activities and indicators underpin this approach:

- Direct economic impacts of the record levels of resource allocation to the Sellafield site which compare favourably to other industries and areas of the country.¹
- A growth in investment both in people and supporting infrastructure to create opportunities locally for apprentices and broader education and training initiatives
- The development of a new socio economic strategy for Sellafield Ltd (aligned with the NMP Enrich Strategy and Programme) that encourages collaborative delivery with key stakeholders
- Immediate changes to the Sellafield Ltd Procurement Strategy and application of appropriate award criteria to encourage Tier 2 suppliers to improve opportunities for the local supply chain and deliver enhanced local, regional and national community benefits (aligned with industry best practice derived from other major public procurements such as the ODA).
- Targets to increase the proportion of expenditure going to SMEs
- A collaborative approach to the application of socio economic financial resources through Britain’s Energy Coast
- Support for the Cumbria Local Enterprise Partnership’s Strategic Economic Plan to have West Cumbria recognised as a UK Centre of Nuclear Excellence as one of its four key drivers of economic growth.

Overall “Sellafield” Impacts on Cumbria Economy

Employment - Current direct employment by Sellafield Ltd in West Cumbria stands at around 9,034 with a further 950 employed as agency/sub-contractors on the site. Direct employment contributes approximately £450m pa in salaries/wages to Cumbria based employees and can be broken down as follows:

- | | |
|-----------------|-----|
| • Copeland | 56% |
| • Allerdale | 24% |
| • Cumbria other | 10% |

The industry by its very nature delivers secure, well paid, long term jobs and this highly skilled workforce, with attrition rates of less than 2% (below UK average 8.9% and manufacturing industry 7%).

Locally this drives higher than average disposable income due to lower than national average costs of living in the surrounding area:

- | | |
|--|---------|
| ○ Average gross weekly full time pay in Copeland Borough | £764.10 |
| ○ NW equivalent | £469.90 |
| ○ GB equivalent | £507.60 |

It is acknowledged that by working with local economic growth and community partners more could be done to increase opportunities for local people who do not currently benefit from the many positive impacts of the nuclear presence in the area. This is being addressed both directly by Sellafield and through the Centre of Nuclear Excellence concept detailed later in this report.

Supply Chain Employment – Through its Responsible Procurement Programme (RPP) and improved forecasting of future supply chain skill and employment requirements, Sellafield Ltd is now encouraging Tier 2 suppliers to increase their commitment towards the creation of additional local employment opportunities; with particular emphasis on the 16-24 age group (where Job Seeker Allowance rates remain high) and unemployed groups. Sellafield Ltd is also actively considering community collaborative delivery models such as “Employment Brokerages” successfully deployed elsewhere.

Apprenticeships and Management Training Schemes – Sellafield continues to expand its direct commitment to local apprenticeship, trainee and graduate schemes to the point where local capacity is now challenged. Sellafield significantly increased its proportion of Graduates (44%), Apprentices (13%) and Trainees (70%) from 2013 to 2014 with a total annual intake of 238. The next phase of development is to encourage a significant change in the level of supplier commitment to skills development that contributes towards addressing the long-term local, regional and national gap in critical skills. This requires a long-term

and targeted approach to developing long-term “Pathways to Employment” based on maximising opportunities for local people. This is one of the priority development areas for 2014/2015

Procurement - Of the annual Sellafield Ltd supply chain spend, currently standing at around £900m, 34.4% some £295.5m, is retained in West Cumbria. This is monitored on an ongoing basis and reported publically by an independent study undertaken by the Cumbria Economic Intelligence Unit within the University of Cumbria.²

Whilst current procurement activity has many positive impacts on the local economy, it is accepted that more needs to be done. Using the 3m³ box procurement (see below), Sellafield has commenced the improvement of its procurement and contract management processes to enhance the importance of socio economic factors in contract evaluation and to encourage suppliers to make hard commitments in their tender returns (golden thread). Consistent with this approach, has been the development of the Sellafield socio economic strategy and the identification of key metrics (to be converted into specific performance targets within the next 12 months).

The Draft Sellafield Socio Economic strategy has been prepared for consultation and establishes 7 objectives that will be included where relevant in current and future Sellafield contracts

1. Support a reduction in local youth and long-term unemployment
2. Improve local pathways to employment through long-term development of education, skills and training matched to long-term Sellafield Ltd business needs
3. Increase the proportion of SME work to stimulate growth in local long-term skills and services.
4. Encourage the local supply chain to support resolution of technological challenges through innovation.
5. Support improvements to transport infrastructure and reduce reliance on road transport
6. Reduce the number of people working directly on the Sellafield Site through the development of suitable alternatives (eg Albion Square development)
7. Provide skilled resources and direct funding to support community investment

Sellafield Ltd has commenced the retrofit of socio economic considerations into existing contracts of major value, e.g. DSA, ISA etc. and a programme of roll out to other contracts has now commenced. It is through good contract management and data collection that return on investment to the community can be estimated (and targets subsequently set).

The key to success will be the establishment of collaborative delivery mechanisms (including a central data collection capability to track and communicate socio economic performance), clear accountabilities and defined outcomes. This will be a priority in 2014/2015 and will need to be aligned carefully with Centre of Nuclear Excellence (CoNE) activities.

Practical Examples - The announcement on the contract process for procurement of 3m³ boxes, on 13 May 2013, is the first to apply such thinking and incorporates a desire to “...ensure that the skills base is maintained in Cumbria so that the mission, which will take many years, can be fulfilled.....” (Baroness Verma). Sellafield Ltd working the NDA and Government has used this procurement as a pilot project to demonstrate best practice in embedding social considerations in a way not previously undertaken by the company and this has included:

- The development of the integrated socio economic strategy referred to above
- Identification of SL priorities linked to defined long term business and community needs
- Implement improvements to the procurement and contractual processes throughout the supply chain
- Consider how they may be applied to existing framework contracts such as DSA and ISA

Sellafield has already commenced the flow down of socio economic expectations into several major project contracts including SDP, BEP, BEPPs/DIF and DDA and so far the response from the supply chain has been positive.

International opportunities - The industry and particularly the Sellafield site have strong links with Japanese nuclear industry, having benefited from commercial contracts with Japanese customers. Building on this relationship and following a number of UK Government and NDA led visits to Japan post the tsunami, Sellafield Ltd are entering into a collaboration agreement with TEPCO to share expertise and innovation aimed at support the mutual challenges of decommissioning and post Fukushima clean-up.

This is hoped to provide business opportunities especially in high technology areas and already there is evidence of West Cumbrian supply chain companies securing contracts in Japan.

SME/Supply Chain Development

Significant resources, both financial and professional, support a range of activities to encourage local supply chain development.

On 08 March 2013 NDA published its national SME action plan to ensure it and all SLCs increase current direct SME expenditure with a target of 20% by 2015.

For Sellafield Ltd 2011/2012 direct SME spend was approximately £82m – around 9% of total procurement £970m compared to the NDA estate average of 13%. SL has implemented their own plan to meet the NDA target, and this has already seen increases in the proportion of total SME spend. The most recent data from a survey of the top 50 Sellafield suppliers shows that c23.5% of work (9% direct plus 14.5% indirect) is being flowed down to SMEs. The trend for this is increasing as a result of improvements that Sellafield Ltd has implemented to reduce SME barriers to entry.

NDA has established National & Regional SME Groups to highlight future procurement opportunities and raise/discuss issues. Cumbria has its own Regional group, chaired and led by the SME community, with NDA, SL, BEC and Local Authorities in attendance.

NDA, SL and NMP have applied significant financial support to provide direct business advice and grants to SMEs and the broader Supply Chain for both business start-up and development. This is invested through the local economic development company Britain's Energy Coast (BEC).

BEC's stated outputs for its current programme directly related to the nuclear investment are:

- Jobs Created 1202
- Jobs Safeguarded 910
- Businesses Created 348
- Businesses Assisted 1,299
- Leverage £50m

These are delivered via a range of projects funded by a combination of NDA and SL, such as:

- Energy Opportunities Supply Chain project – provides business support, events & market intelligence to Energy Supply Chain at all levels - £311k pa (NDA & SL)
- Linkstart/Backing Business/WISE – support through key stages of business start-up, developing and sustaining individual and SME businesses across sectors - £320k pa (NDA)
- Regional Growth Fund 2 - £1m NDA match funding secured £5.6m Government Grant – leveraging £30m private sector investment
- Innovus – 2012/2013 (NDA) investment to create technology pipeline support through to commercial product. Investment in 2013/2014 (NDA and SL) £732K

Additional Skills & R&D Investments

The opening of a Construction Skills Centre on 20 June 2013 and the Dalton Cumbria Research Facility on 6 September 2013, add to Energus and the establishment of University of Cumbria in West Cumbria, and NNL to create an unrivalled network of infrastructure uniquely placed to support supply chain development in support of the Sellafield mission. Specific investments have included:

- DCF a £20m joint NDA University of Manchester, world leading research capability & staff in Radiation Sciences & Decommissioning Engineering
- Construction Skills Centre, £7m project for apprenticeships in traditional and renewable construction skills, provide workers for local supply chain and significant on site construction programme (NMP £4m, NDA £2m and Lakes College £1m)
- Energus continues to support UoC and training of Sellafield apprenticeships in engineering sector, initial £10m investment from NDA and SL Total cost £21.5m). Since opening in 2009 NMP and NDA now invest further £500k pa for Centre of Leadership aimed at increasing leaderships skills in private, public and third sector
- Refurbishment of Summergrove training facility to create high quality academic staff and mature

- student accommodation centre £1.5m (NDA & SL)
- Industry support for development of University Technical College

West Cumbria as a Centre of Nuclear Excellence

The existing nuclear investment in Cumbria explored above is the foundation for the Cumbria Local Enterprise Partnership aspiration to have West Cumbria recognised as a world leading Centre of Excellence. This is one of its four key drivers for economic growth in its Strategic Economic Plan. This could also unlock new sources of funding for economic growth in area both in the UK and Europe, as well as encouraging future private sector investment.

With this in mind, the nuclear partners have reviewed their priorities to better focus socio economic activity with the LEP Plan. This has led to four key priorities built around:

- Strategic Land Assembly to establish a portfolio of sites and premises for investment
- Focus on improving secondary education attainment in and around Whitehaven in partnership with the Local Education authority and local schools
- Development of a focussed vocational skills enhancement programme
- Drive Research & Development Opportunities in Innovation and Technology to support local supply chain development

Major Social Economic Projects delivered in partnership with BEC and other Cumbria authorities

- Creation of the Albion Square office development in Whitehaven town centre. £21.5m investment (£15m NDA Properties direct, remainder NMP via BEC) to relocate 1,000 SL employees off site bringing significant benefits to town centre economy.
- £2.95m (NMP) investment in new Office provision for Supply Chain (Pillar House), housing 200 jobs, with an announcement in April 2014 that Jacobs Engineering have taken up full occupancy of the building bringing new jobs to the area.
- Port of Workington - £5.7m (£4 NMP, £1.7m NDA) investment to create a commercial container handling facility and associated infrastructure, the only such facility between the Clyde and Mersey. Creates 10 additional jobs, a freight forwarding and warehousing service for business. Expected to lever additional £13m private sector investment and potential or attracting indirect employment in businesses using the service.

Sellafield Ltd also directly supports employees in a range of community activities, which add additional benefits to the social fabric of West Cumbria. One of the priorities, reflected in the Sellafield Ltd socio economic priorities is to encourage suppliers to significantly increase and report on their respective contributions to community activities.

Employees volunteer into off site community activities, totalling 7,000 hours per annum, which equates to a further investment of around £285,000. This includes Stem Ambassadors, School Governors, Special Constables, Mountain Rescue and the Armed Forces. Of the 253 Stem Ambassadors, 163 male, 90 female and 166 under the age of 35

Summary

In response to the PAC recommendations, the following progress has been made

1. "Set out what added value can be achieved from taxpayers investment in Sellafield"

- The establishment of Sellafield's socio economic strategy and RPP provides the basis for significantly leveraging additional supply chain led community benefits. The initial phase will focus on establishing the metrics/baseline of current performance and then to progressively establish quantified targets to further enhance and quantify that performance. Leveraging the value of Sellafield's long-term programme is the means through which added community value can be created
- The flowdown of socio economic expectations into procurement and contract management arrangements has commenced and this is starting to realise positive results. The next stage is to build

good performance into routine commercial practices and to aggregate and report on overall performance to quantify the added value

2. “Clarify roles in delivering added value”

- Leveraging the value of the total Sellafield programme is primarily Sellafield’s role (contracting authority) supported in key areas by NMP and other outside agencies (who also work to deliver wider socio economic benefits)
- The establishment of collaborative delivery arrangements will allow the key stakeholders to agree key roles and responsibilities going forward

3. “Set Performance Targets for contributing to the development of the regional and national economy and workforce”

- The Sellafield RPP approach is to establish current performance and baselines and then to implement quantifiable targets (within 12 months) matched to business needs and agreed social outcomes (community drivers). Agreement of agreed social outcomes is best achieved through the development of a collaborative approach which will then form the basis of public reporting
- Tenders for major projects also require bidders to consider regional and national development as well as local socio economic development, but the approach being taken is to maximise opportunities in relation to the proximity of the business activity.
- Regular performance reporting on operational activities is made to the West Cumbria Site Stakeholder and other representative groups. That will be extended to take account of socio economic impacts and outcomes, with progress being reported against baseline and taking account of the aspirations of the Cumbria LEP and the BEC Economic Blueprint, which aims to create 3,000 jobs in West Cumbria over a fifteen-year period.

In conclusion, there is a clear desire to work collaboratively to address the issues raised by the PAC, with significant activity already underway, and processes in place to ensure ongoing public reporting of progress.

¹Woodholmes Report – an independent study of socio economic impacts of areas/industry that could be benchmarked against Sellafield/West Cumbria. “Conclusion on Best Practice - 3.11.9. The information available to date on the “business as usual plus” activities of Sellafield Sites far exceeds other nuclear sites. Heathrow is the only other business with a set of performance measures to monitor progress against their objectives. The introduction of performance indicators into the Sellafield Socio-Economic Plan is leading the way in the nuclear sector and these indicators should be developed to reflect both the “business as usual” and “business as usual plus” components of Sellafield’s activities

²2010/2011 independent CRED study. Figures showed an increase from 28% of £660m in 2007/2008.