

**Minutes of the ONR Board
31 March 2022
The Trout Hotel, Cockermouth, Cumbria**

Present:

Members

Mark McAllister - Chair
Sarika Patel - Non-Executive Director
Tracey Matthews - Non-Executive Director
Jean Llewellyn - Non-Executive Director
Simon Lister - Non-Executive Director
Janet Wilson - Non-Executive Director
Mark Foy - Chief Executive / Chief Nuclear
Inspector
Sarah High - Deputy Chief Executive
Donald Urquhart - Executive Director
Operations
Geoff Hawker - Finance Director

Attendees

Dave Caton - HR Director
Katie Day - Director Policy and Communications
David Smeatham - Innovation Lead Sponsor
(item 6)

Secretary: Charlotte Cooper, Head of Corporate Governance (Board Secretary)

1 Welcome, Introductions, Apologies for Absence and Declarations of Interest

- 1.1 The Chair welcomed everyone to the meeting noting Sarika Patel, Non-Executive Director and the Finance Director (FD) would be joining the meeting remotely via MS Teams.
- 1.2 There were no apologies for absence and no declarations of interest were received.

2 Minutes, Matters Arising and Action Points

- 2.1 The minutes of the meeting held on 2 February 2022 were agreed as a correct record.
- 2.2 All actions on the action log were complete or on track for delivery.
- 2.3 In relation to:
 - i. February 2022 Action 2 – update on the integration of SIMRS into the WIReD platform – to be followed up with the Audit and Risk Assurance Committee (ARAC) Chair / Executive Director of Operations (EDO) in their next one to one meeting.
 - ii. 25 November 2021 Action 2 – New Ways of Working (NWoW) Project evaluation – report to July Board to include clear recommendations.

3 Chair's Report

- 3.1 The Chair reflected on the Board's visit to Sellafield and the joint ONR Board / Sellafield Limited (SL) Board discussion which had provided an excellent opportunity to share respective views on the good progress being made and to discuss current challenges. On behalf of the Board, the Chair confirmed that he would write to thank the SL Chair, his Board colleagues and the many staff on site the Board met, for taking the time to host ONR's visit and subsequent discussions on 30 and 31 March.
- 3.2 He reflected on a number of interesting themes as follows:
- i. Simplification and how this needs to become a mindset for all ONR staff.
 - ii. The forthcoming Energy Security Strategy and ONR's preparedness.
 - iii. The continued positive impact of ONR's structural change and our ability to deal effectively with key matters including GDA, the Post Implementation Review (PIR) and our response to the situation in Ukraine.
- 3.3 He highlighted the continued value of external networks and provided feedback on a number of Public Chairs' Forum (PCF) events as well as separate meetings with the Chairs of the Nuclear Decommissioning Authority (NDA) and SL on 14 February and 8 March respectively. Together with ONR's Chief Executive / Chief Nuclear Inspector (CE/CNI), he undertook a joint ONR, Environment Agency (EA), and Health and Safety Executive (HSE) Chairs' site to Sizewell B and C on 16 March which fostered a better understanding, at Board level, of each other's perspectives on the challenges of regulating a nuclear site.

4 Executive Director Report

- 4.1 The CE/CNI presented his summary report on key strategic, operational and financial matters, and highlighted emergent risks during the reporting period. His report draws on respective summary assessments from the Board's Executive Directors (EDs).
- 4.2 Following on from his email to Board on 3 March, he provided a further update on the developing situation in Ukraine, the formation of a technical cell to consider specific nuclear safety concerns, our role in advising government and our level of international engagement and connectivity. The team has responded in an exemplary manner to the challenge as they have shown professionalism and worked diligently, demonstrating an effective, integrated approach across our regulatory and communications functions. Their good work was formally recognised in a letter of thanks from the Minister for Work and Pensions (Lords).
- 4.3 He was pleased to report that the PIR had concluded, confirming that the objectives of The Energy Act 2013 are being met, our statutory purposes and functions are still required, and that we are delivering them effectively. The independence of our regulation remains key, and the review notes our record of ensuring that the industry operates safely and securely and that our strong domestic and international reputation is maintained. He recorded his thanks to the ONR team for their continued focus and professionalism in supporting the review team. The Director of Policy and Communications (P&C) would report in more detail at item five.

- 4.4 He reported that the Senior Leadership Team (SLT), led by the Finance Director, had worked hard to present to Board a realistic and credible budget that recognises the experiences of the last 12-months, appropriately accounts for what will be different in the coming year, and is realistic about what we can achieve. In seeking to address our inherent optimism bias, it represents a significant reduction in the initial estimate provided to Board in February. This would be discussed in detail at item eight.
- 4.5 He provided an update on new build noting significantly more communications traffic relating to the Government's possible new build agenda. As we await publication of the Energy Security Strategy, the potential workload associated with servicing the nuclear new reactors agenda is such that, as an organisation, we will need to be flexible, and agile and to consider innovative approaches to resourcing the work.
- 4.6 The EDO reported on what had been a particularly busy period with significant permissioning delivery timeframes to meet, interfaces with government on a potentially very ambitious government nuclear new build programme, a review of the regulatory attention level status of our dutyholders, budgeting for 2022/23, actions to close out the 2021 budget year, and providing support to government on the unfolding situation in Ukraine.
- 4.7 He commented that after five years of hard and diligent work, the design acceptance confirmation for the UK HPR 1000 reactor was issued on 7 February 2022, representing the end of this Generic Design Assessment (GDA). This was a remarkable achievement by all of those involved and was delivered to a very high standard and to time.
- 4.8 He confirmed that the Sellafield, Decommissioning, Fuel and Waste (SDFW) team had permissioned the active commissioning and subsequent retrievals at the Pile Fuel Cladding Silo (PFCS) at Sellafield. Whilst there remains a minor technical issue that will need to be resolved before retrievals begin, this is a remarkable achievement by the team after many years of work to get us to this point. The team continues to work on the assessment and permissioning necessary for retrievals to begin on the Magnox Swarf Storage Silo (MSSS).
- 4.9 He confirmed that EDF Energy (Corporate) is to be placed under enhanced regulatory attention for security in light of compliance and organisational challenges that need additional regulatory oversight. Whilst this is disappointing, he is satisfied they are responding proactively, and in a timely manner, to the issues that have led to this change in regulatory attention status.
- 4.10 He reported that the WIReD Project had made good progress and continues to deliver to quality, schedule, and cost. Whilst retention of capability will remain a significant project risk until the project completes, good progress has been made in recruiting the necessary IT specialist skills in a highly competitive market. Whilst delivery confidence is much higher, the project team is now focused on benefits realisation as we move through the remainder of this calendar year.

- 4.11 He confirmed his intention to initiate an efficiency campaign across the Regulatory Directorate (RD). This will focus on the proportionality and targeting of our regulation, build on the lessons of WIReD by seeking to simplify regulation where possible, and examine overhead activities to ensure they add value whilst eliminating unnecessary bureaucracy.
- 4.12 He concluded by providing an update on the EDF reactor fleet. We will work with EDF to ensure continued operations, but only so far as we are satisfied on the safety of such ongoing operations.
- 4.13 The DCE reported pace and volume of work continues to impact all teams with many colleagues carrying heavy workloads. Not only are we managing the cyclical business planning and budgeting pressures, with capacity gaps and sickness within teams, recent activity to support GDA, PIR and developments in Ukraine is placing additional burdens on teams. This has necessitated some key reprioritisation activity to ensure demands are more manageable and the teams stay well and remain focused on the right activities.
- 4.14 She confirmed that the IT service remains operationally stable but continues to present daily challenges. ONR has commenced negotiations for a one-year extension to the existing agreement. A hybrid model providing IT support for ONR's business applications, including the future onboarding of WIReD and SIMRS into the Information Technology and Delivery (ITD) Directorate, is a specific area of focus during the negotiations. In parallel, we are investing our efforts in our longer-term sourcing strategy and associated tender plans.
- 4.15 She highlighted that the replacement for SOP will not be delivered before the current contract with SSCL ends in October 2023; and a contract extension will be sought which could run to 2026. The final decision rests with Government Shared Services but they are of the firm view that any contract extension with SSCL should be negotiated as one entity rather than departments sourcing their own terms on a case-by-case basis. A DWP / ONR meeting is scheduled to take place early April to discuss the latest position and determine next steps.
- 4.16 She confirmed the 2021/22 capital loan had been approved and we are working with DWP finance colleagues to draw down these funds before year end. Following protracted engagement with DWP, we have been informed that DWP and HM Treasury have agreed to the Judicial Review costs and will work with DWP to finalise the funding.
- 4.17 She reported that the Backup Resilience Project is progressing largely to plan but continues to require investment by colleagues to improve external responsiveness. The new digital strategy is under development with support from PwC, with publication due Q1 2022/23.
- 4.18 She provided an update on our office leases noting that during 2024 our leases for London and Bootle expire and Cheltenham will have a lease break point. Activity has begun to plan for the expiry events and the Estates team are working to establish future requirements in line with our Estates Strategy 2021-25. A paper will be provided to SLT in April outlining the position and seeking a steer on options for

each location. She confirmed that the Board will be approached for insight and endorsement of options in due course.

4.19 The HR Director provided an update on ONR's Organisational Review (formerly OBP). He confirmed the review will cover five areas: Pay & Grading; Matrix Management; Functional Composition; Capacity and Benchmarking; and Organisational Capability. This will enable us to undertake research and assess comparable data which will inform options to improve or change how we currently operate and ensure that supporting systems and structures are aligned to best effect. A tender for external support for the pay and grading and matrix management aspects is due to be issued shortly. Options and recommendations will be presented to SLT later in 2022/23.

4.20 In discussion the Board:

- i. Asked whether we needed to issue any guidance as a regulator on what licensees are expected to do in relation to the ongoing situation in Ukraine. The EDO confirmed this was not the case but confirmed he was in regular dialogue with dutyholders regarding any impact on them or the supply chain.
- ii. Asked the EDO to consider at which point we would take WIRed into business as usual, including the future onboarding of WIRed and SIMRS into the ITD Directorate. The EDO confirmed the BAU tipping point is likely to be towards the end of the calendar year.
- iii. Commented on a number of recurring themes throughout the paper regarding excessive workloads and our drive for efficiencies. The CE/CNI confirmed both would be priority areas of focus for the newly established Executive Team (OET) which would be operational on 1 May 2022.
- iv. Questioned the need for a new digital strategy, rather than a digital provision, and why we needed external support to develop the strategy.
- v. Wanted to see clear metrics developing as we move forward with our simplification journey.

4.21 The Board noted the report.

5 Post Implementation Review (PIR) - Update

5.1 The Director, P&C shared the draft summary report from the PIR, which ONR has commented on, and highlighted the key points contained within the report. She confirmed the CE/CNI's view that this has been a very positive result for ONR in terms of the overall review conclusions.

5.2 She ran through the key findings and 15 recommendations contained in the report. We expect the final PIR reports (summary and full) imminently although we do not anticipate any significant change. These would be shared with Board immediately upon receipt. She would also provide an update on next steps as the reports go through BEIS governance, timescales for laying the reports in Parliament and our approach to addressing the final recommendations. The Chair of ARAC expressed her concern regarding the recommendation for IT expertise; this was noted and will be considered further as part of next steps.

5.3 The Board noted the draft summary report and thanked all ONR colleagues involved in the review.

6 Delivery of ONR's Approach to Innovation

6.1 The Innovation Lead Sponsor gave a presentation on delivery of ONR's approach to innovation. He highlighted: the government position setting out the need for regulation that supports innovation; ONR's commitments in the ONR Strategy to 2025 and Approach to Regulating Innovation 2020; and work in September 2021 to baseline ongoing innovative work which had highlighted over 50 pieces of work across RD.

6.2 He touched on what we mean by innovation, confirming 'the implementation of new ideas that generate value' as set out in the independent report from the Taskforce on Innovation, Growth and Regulatory Reform 2021.

6.3 He demonstrated the model for delivering ONR's approach to regulating innovation and provided a number of real examples where the model had been applied in practice. He also set out arrangements for ONR's virtual innovation hub which aims to promote, centralise and generate new approaches to regulation. The innovation hub will be open to licensees, dutyholders and requesting parties (i.e. those vendors engaged in the Generic Design Assessment). It will also be open to supply chain companies where they are sponsored (including funding) by licensees, dutyholders or requesting parties. Its purpose is to ensure ONR's arrangements are fit for purpose to assess innovation in the future. Taking this approach avoids providing a commercial advantage to those engaged and prevents disturbing the UK market (e.g. engineering consultancy providers). He highlighted a number of key considerations including: ONR's vires; commercialisation; funding; and effective and efficient use of ONR resource.

6.4 In discussion the Board:

- i. Welcomed the good progress made in taking this work forward and thanked the Innovation Lead for his leadership in this area.
- ii. Reinforced the view that the innovation hub in its design is about providing a safe space to innovate. It will be equally on offer to all to avoid providing any commercial advantage to those engaged with it.
- iii. Confirmed the importance of establishing clear charging principles and in ensuring a charging mechanism is in place. The Board asked that this is subject to further consideration by the ARAC.
- iv. Discussed how we move to normalise 'innovation', so this becomes business as usual and is not seen as something separate to the day job. The CE/CNI acknowledged this will require a cultural shift internally but that we are on that journey both internally and with licensees.

6.5 The Chair thanked the Innovation Lead Sponsor for an excellent and encouraging presentation.

Action 1: Establishment of Innovation Hub Charging Principles to be subject to consideration by the ARAC – EDO / DCE.

7 2022/23 Corporate Plan

- 7.1 The Director P&C presented the Corporate Plan 2022/23 (version 2.2) which was circulated early to Board members to enable comments to be provided in advance of the Board meeting. The Plan presented currently excludes the Corporate Milestone Plan which would be agreed separately. She thanked Board colleagues for their comments and confirmed she had responded to each of them directly.
- 7.2 She explained the focus of the Plan, how it looks different, our asks of Board, and highlighted what other material will need to be added. She confirmed it reflected our changing operating environment, specifically the shift from “response” to “recovery” from COVID, and our move to hybrid working. It also refers to the PIR report, but as this is still a working draft, we expect the language/content may need to be further refined closer to its publication. The situation in Ukraine is not yet reflected. The rapidly changing position also means we expect to insert relevant text much nearer to publication, as any commentary we provide now is likely to be out of date quickly. Additionally, we expect to include our latest stakeholder survey results, which are currently being finalised. Our final set of regulatory planning assumptions is included at Appendix A.
- 7.3 She confirmed the version provided reflects feedback from the SLT. We have received good feedback from DWP and the MOD and await feedback from BEIS. We do not envisage any major changes, subject to additional references on the PIR, Ukraine and our stakeholder survey outcomes.
- 7.4 She informed Board of the work undertaken to simplify our approach to development of the Plan and reduce the length of the document itself. This had seen the document reduce by a third compared to the 2021/22 Corporate Plan and we would look for opportunities to further refine the document next year.
- 7.5 In discussion the Board:
- i. Acknowledged that the inclusion of our “ambitions” was to appeal to all staff but felt that there was the potential for confusion between ambitions and priorities and we should try to be clearer on both.
 - ii. Asked whether we could be more specific in referencing efficiency / cost savings and simplification activity.
 - iii. Questioned the requirement to publish an annual plan and the form this should take to satisfy the requirements in Schedule 7 of the Energy Act 2013 (TEA13). They were keen to explore whether we could simplify our arrangements by providing a five-year plan aligned to our new strategy, with a breakdown on how we will be delivering our strategic objectives over that time period, the details of which can then be captured in an annual statement of intent.
 - iv. Asked the DCE to reflect further on the conversation at 7.5iii with the Director of P&C to seek further efficiencies across our publications in 2023, streamlining where appropriate whilst satisfying the requirements of TEA13. They asked that we signal this intent in the 2022/23 Corporate Plan Foreword.
 - v. Noted the Plan was subject to final proof reading by the Communications Team.

- 7.6 Subject to the minor changes to address Board and Government feedback, the Board approved the Corporate Plan 2022/23 and delegated accountability for final changes to the CE/CNI, in consultation with the Chair.

Action 2: Seek further efficiencies across our publications in 2023, streamlining where appropriate, whilst satisfying the requirements of TEA13 – DCE / Director P&C.

8 2022/23 Budget – Key Messages, Opportunity and Risks

- 8.1 Further to Board consideration of the detailed preliminary budget proposals in February, the FD presented the final 2022/23 budget proposals and highlighted key messages, assumptions and associated risks.
- 8.2 He confirmed that following extensive review, the budget required to deliver ONR's strategic objectives in 2022/23 is £97.3m. This is an increase of £7.6m (8%) against the 2021/22 Period 7 full year forecast (FYF) of £89.7m and is £2.3m (2%) higher than the 2021/22 budget of £95.0m. The final budget has reduced by £5m compared to the preliminary proposals. He provided an analysis of movement between the preliminary and final budget bid. He confirmed that the SLT believe this is a robust budget that accounts for unavoidable cost increases, a post-pandemic way of working, and other known demand changes.
- 8.3 Additionally, he added that to assess the reasonableness of the 2022/23 budget of £97.3m we had compared this against our recent and expected levels of monthly expenditure. These run-rate values provide a reasonable level of assurance that the proposed final budget of £97.3m is within a realistic parameter.
- 8.4 He highlighted the unavoidable cost increases of £4.4m. These are mainly driven by increases in: staff pay; competency pay progression (CPP); the new National Insurance levy; the full-year effect (FYE) of new starters who joined during 2021/22; vetting price increases from Cabinet Office, and estates increases associated with fuel prices. The increases are partially offset by a decrease in expenditure in Technical Support Contracts (TSCs) now that the GDA UK HPR 1000 has concluded. He also highlighted the discretionary cost increases of £3.2m. These are a combination of demand-driven increases, such as: headcount to support regulatory functions and support directorate activity; costs to deliver the remainder of the WIRed project by December 2022; the delivery of the IT offline backup facility; and preparations for the IT contract retender. Other increases are associated with our operations 'returning to normal' such as greater domestic and international Travel and Subsistence (T&S), more training and a return to holding physical conferences (both included in Misc.). These increases are partially offset by an 'opportunity factor.'
- 8.5 He confirmed the 2022/23 budget proposal reflects a 5.6% increase in resources from the 31 March 22 forecast of 643.5 FTE to 679.7 FTE at 31 March 2023. However, this includes a 20.9 FTE for unfilled approved roles which had been carried forward from 2021/22. He noted that had these roles been filled by 31 March 22, then the year-on-year increase in FTE would be 2.3%.
- 8.6 He provided details on the proposed £2.1m of capital spend, included in the budget bid, for a range of projects and investments.

- 8.7 He confirmed that we will monitor expenditure to track our progress against the proposed budget and ensure that opportunities for cost reduction are identified.
- 8.8 He also set out several risks that need to be considered alongside this budget including the age demographic of ONR staff and the potential for this to be exacerbated by the anticipated increase in demand for nuclear solutions that would likely require additional regulatory capability. It is important that we consider the need for contingent capacity and capability to manage future demand risks. He confirmed the risks will be captured in a new strategic risk and the impact will be closely monitored throughout the year.
- 8.9 In discussion the Board:
- i. Thanked the FD, the Executive and SLT for their extensive review of the budget and the subsequent reduction in budget of £5m from the preliminary budget presented to Board in January.
 - ii. Welcomed the 2022/23 budget waterfall analysis at appendix 1 in the paper which clearly sets out the issues.
 - iii. Were keen to see the outputs from the benchmarking exercise with comparable organisations and asked the CE/CNI to bring this to Board upon completion.
 - iv. Commented that ONR is now hitting the peak in terms of organisational growth and that any further demand would be driven by external demand.
 - v. Noted the increase in HR activity was predominately driven by work to get us back to pre-COVID levels of activity.
 - vi. Supported the FD's intention for longer term forecasting, adding we should be aiming for a longer term, deeper reaching opportunity register.
 - vii. Discussed the impact of our budget on our dutyholders and how this would be received, noting this would see a 20% increase in dutyholder contribution from 2021/22 to 2022/23.
 - viii. Acknowledged that £6.5m of the increase in dutyholder contribution related to the introduction of new Safeguards Fees Regulations and noted this change in cost recovery had been communicated to dutyholders.
- 8.10 The Board approved the 2022/23 budget of £97.3m, noting this would now be presented to DWP for Ministerial Approval.

Action 3: Report the outputs from the benchmarking exercise with comparable organisations to Board as soon as this work is completed - CE/CNI.

9 ONR Risk Appetite Statement for 2022/23

- 9.1 Further to Board consideration of the Risk Appetite in February, and in line with the recommendation provided in HMG's Orange Book, the FD presented the draft overarching Risk Appetite Statement for 2022/23, including our risk classification structure, appetite scale and description for each risk category.

- 9.2 The draft statement addresses previous Board comments that there should be a smaller number of consolidated categories, with clear definitions and classifications to give a flavour of how we approach our business. It should also address how risk can be anchored into our governance to bring consistency of approach and consider the risk to delivery against our objectives.
- 9.3 The draft statement has subsequently been considered by the Risk Improvement Group (RIG) and the SLT. He confirmed there are now nine risk descriptors and highlighted the rating proposed for each, along with the detailed rationale of the risk appetite rating.
- 9.4 In discussion the Board:
- i. Welcomed the draft statement which satisfactorily addresses previous comments from the Board.
 - ii. Were content with the risk appetite ratings in eight of the nine risk descriptors, with the exception of 'financial.'
 - iii. Had a detailed discussion on the 'financial' risk descriptor and the proposed overall rating of 'minimalist' which recognises our need for robust budget management processes and that all our financial and commercial decisions are made on the basis of optimising value for money. There was a view that a 'cautious' overall rating may be more appropriate in setting the right tone to drive opportunities, simplification and efficiency.
- 9.5 The Board asked the FD and Executive Directors to reflect on the detailed discussion at 9.4iii and the divergence of views, discuss with NED colleagues where needed, and return to Board in April.

10 Summing Up and Close

- 10.1 The Chair thanked everyone for their attendance and contribution at Board and in our engagement with the SL Board and site visit. He summarised each item and confirmed the agreed actions.
- 10.2 There was no other business raised. The Chair formally closed the meeting.

11 Information Papers

11.1 The Board noted the following information papers:

- a) Regulatory Asset Base (RAB)
- b) Security Committee - Draft Minutes - 2 December 2021
- c) ARAC - Draft Minutes - 18 January 2022
- d) Board Forward Look.